The NEAL SPELCE AUSTIN LETTER

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Dear Client:

**Affordable housing has long been debated in this, one of the most expensive housing markets in Texas. Now an Austin housing leader is suggesting a redefinition of what "home" means. Paul Hilgers has a recommendation. And it would be incorporated into a complete overhaul of the City of Austin Land Development Code.**

"It's clear Austin needs more housing stock," Hilgers, the president of the Austin Board of Realtors, said. "**But the solution to Austin's housing affordability challenges is more than just building new housing stock, it's about redefining what 'home' means for Austin**." He points out that "home" for most Austin residents "is a single-family home, an apartment in a large multi-family complex or a condominium in a tall downtown tower."

"However," he continued, "**single-family homes can no longer be developed within Austin's city limits in an affordable price range for most homebuyers**. High-rise condominiums and large-scale apartment complexes are not practical density solutions for many of Austin's neighborhoods."

So, he is pushing for "**medium-scale housing options**" **such as** "**lofts in small apartment buildings, more duplexes and triplexes, and accessory dwelling units in traditional single-family neighborhoods**." (Accessory units could include garage apartments, smaller detached units on an existing home site, etc.) **The current city code severely restricts such options**.

"These medium-scale housing options are not only **more affordable to more residents, they allow for greater density and infill throughout Austin without disrupting the unique sense of place of its neighborhoods**," Hilgers said. "Medium-density housing options are commonplace in many Austin-sized cities." He also said "**if we don't make some significant changes** … **many more of our residents will not be able to live within the city limits**."

He said this option "recognizes that **Austin's growing populations of single young professionals, families without children and retired senior adults often prefer a smaller home** with less upkeep and greater access to services, amenities and entertainment. Our future economic viability depends on increasing the affordability of all of our housing options." The Austin City Council is expected to tackle re-writing the city's code this spring. In addition to re-defining "home," check out the next item for a different approach to the word "affordable."

**What is affordable depends upon how much money you make. Right? Well, income for Austinites has been rising. As a result, a Texas real estate economist points out that Austin ranks pretty good on the housing affordability scale when you factor-in income.**

It's basic economics. Those on the lower end of the pay scale will always have problems with affordability. But when you look at the region as a whole, lumping the lower pay scale folks in with all the others, you get a **picture of economic vitality that puts a perspective on overall housing affordability**. Let's explain the conclusion reached in a tracking study conducted by the TexasA&M Real Estate Center.

As you know, **Austin area home prices have continued to go up. But so has the income level of area residents**. For years now, the Texas Housing Affordability Index (THAI) has been tracking home prices, prevailing mortgage interest rates and income levels in each metro's Multiple Listing Service (MLS) area.

The Index is the **ratio of median family income to the income required to qualify for an 80%, fixed-rate mortgage to purchase a median-priced home**. Got that? Without diving deeply into the metrics, the folks at the Real Estate Center say that in the 4th quarter of 2014, the state had an Index of 1.74.

Stay with me now. This means the state's median income was 1.74 times (or 174% of) the income required to buy a median priced home. **The higher the Index value, the more affordable homeownership is**. So, using the same formula, what was the Austin MLS Index?

Well, by this THAI tracking method, **homes in the Austin area are "affordable." It is not as good as the state as a whole. But still it is still "affordable" at 1.66**. While okay for now, this number bears watching. Because when you check the year before, you find Austin's 4th quarter 2013 THAI was better -- at 1.80. But even more striking is that there are **only five other Texas MLS cities that ranked at year-end below Austin's sagging THAI**.

So, how do other Texas MLS regions stack up using this same measure? For 4th quarter 2014, here's a sampling (remember, the higher the Index, the more affordable the housing): **Dallas, 1.77** … **Fort Worth, 2.42** … **Houston, 1.82** and **San Antonio, 1.73**. Some smaller MLS areas: San Marcos, 2.48 …Temple-Belton, 2.48 … Killeen-Fort Hood, 2.45 … Kerrville, 1.63 … and Bryan-College Station, 1.75.

**This Index may be affected negatively sooner rather than later**. Most economists will tell you mortgage interest rates are going up in the near term. Part of the equation that determines affordability is the cost of money. The Real Estate Center's research economist **Jim Gaines** acknowledges that this Index was computed using a **30-year fixed mortgage rate averaging just under 4%. And this contributed to affordability**. Watch out when mortgage rates rise.

**Austin's winter weather warning this week fizzled without slamming this area like elsewhere. And with spring set to officially begin in two weeks, it's time to look ahead at future weather.**

Actually, meteorologically-speaking, spring started Sunday March 1. But since no one except weather geeks speak meteorologically, let's use the **time-tested date of the March equinox as the official start of spring – 5:45 pm CDT, March 20, 2015**.

Spring is normally a wet time of year, but in this drought-scarred region summertime is the key to a good weather year. And, guess what? **Good news**! **The drought forecast for the summer of 2015, made using January observations, shows a high probability for a wetter-than-average summer**.

I know, I know. You're saying "look, they missed the winter weather warning big-time this week. Why should we believe this optimism?" If for no other reason, it gives us a bit of hope.

**Speaking of hope, you'll be pleased to know that in case of a national economic melt-down, all 31 of the biggest US banks can withstand severe losses without a taxpayer bailout.**

How do we know this? The Federal Reserve said so this week (okay, insert your favorite joke about Washington here). For the first time since the Feds began putting the big banks through a "stress test" in 2009, **all 31 of the biggies were found to have enough capital to continue lending during a hypothetical economic shock**.

What kind of shock? **A crisis where corporate debt markets deteriorate** … **unemployment hits 10%** … **and housing and stock prices plunge** – that kind of shock. Okay, gotcha. That would be a pretty serious economic downturn. A side benefit: the banks may soon get permission to **return profits to investors by raising dividends or buying back shares**.

**Using Austin's ordinance as an example for San Antonio to adopt to regulate ride-sharing services, Uber threatened to leave the Alamo City if Austin's example was not followed. After another San Antonio City Council vote Thursday, Uber said "not good enough. Adios."**

Uber officials did not set a departure date, but it said it will not be able to operate when the San Antonio ordinance goes into effect. "**In one vote, the city has destroyed thousands of jobs and eliminated a safe transportation option**," an Uber spokesperson told the media. Uber called the Alamo City ordinance "**one of the most burdensome in the nation**." San Antonio leaders said they had to strike a balance between Uber's concerns and protecting public safety. FYI, this battle isn't over. In fact, it is widening. **A bill addressing statewide regulation of ridesharing is pending before the Texas Legislature**.

**What happens to the Texas oil bidness is vital to the Austin and Texas economy**. **Scary headlines like "Drilling Activity Declines for 10th Week" hit us in the face**. **Then a contrasting headline pops up that says "Texas Wells Keep Pumping." Even with low oil prices, there's a little-known reason the oil keeps pouring out of the South Texas Eagle Ford and West Texas Permian plays**.

There's no question low oil prices (in the $50-$60 per barrel range, compared to $100+) have had a major impact on Texas oil operators. **Thousands of workers all over the state have been laid off**. **Fewer wells are being drilled**, even more wells are not being completed and the rig count drops weekly.

**But many rigs keep pumping oil anyway**. In fact, oil production is going on at a record pace. Check the numbers. Texas produced around 71 million barrels of crude oil in December, according to **Nicholas Sakelaris**. And that was **up more than 16 million barrels from the same period in 2013**. What's going on here?

**The oil companies must keep drilling to keep their leases intact**. You see, if they stop pumping oil, in many cases their leases from Texas landowners are voided. And, if they go back and try to re-activate the leases, **it's likely they have to pay out signing bonuses all over again**. So, it appears they feel this oil price slide may be over soon.

Not complaining, you understand. **As long as oil is flowing**, **tax revenue is pouring into Austin to fund state government operations**. Your legislators are scrambling as we speak to take advantage of this income (as well as increased sales tax revenue). They are talking about **spending more money**, **much of which will course through state agencies that hire Austin residents**. At the same time, there is a move in the legislative halls to cut taxes. Only in Texas. The state is flush with cash and getting "flusher."

**Dr. Louis Overholster** thinks ego-driven politicians will ultimately fail. As he put it, in his twisted way: "When they get too big for their pants, they will be totally exposed in the end!"

Sincerely,

Neal Spelce

Editor/Publisher