The NEAL SPELCE AUSTIN LETTER

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Dear Client:

If you ever needed affirmation that the City of Austin's increasing reliance on solar and wind power raises your electric bill, you just got it from Austin Energy's head man. And his public statement came as your electric bill may be reduced slightly in November due to lower prices for natural-gas-and-coal-fired electricity.

Juggling the many generating sources for electricity is a complicated business. The electricity the City of Austin provides its customers comes from different plants. **They are powered by longtime fixtures such as natural gas, coal, nuclear and renewable sources such as wind and solar.** And it taps into the Electric Reliability Council of Texas's (ERCOT) wholesale market. Prices differ almost daily for a variety of reasons.

Austin Energy General Manager **Larry Weis** is proposing the Austin City Council adopt a *decrease in energy costs* for its 455,000 customers in the fiscal year 2016 city budget. What? Yep. After sharp recent rises, why lower bills now? "**The ERCOT market is experiencing a sustained period of low prices due to the availability of abundant natural gas, which forces coal power prices to be reduced**," explained Weis.

"**This helped offset Austin Energy's cost of having a higher-than-market renewable energy portfolio**," said Weis. There you have it. And the Austin City Council has a **policy of increasing reliance on renewable energy – which could mean less usage of the cheaper stuff**. (Check the 5/22/15 newsletter in our Archives that expands on Council's policy to use 35% renewable energy by 2020 and, ultimately, to rely on renewable energy for 55% of your electrical needs.)

Don't let this reminder of the higher cost of renewable energy obscure the *positive* step taken by Austin Energy to lower your electric bills. Weis pointed out the reduction is possible due to "**the biggest decrease in the net power supply costs in several years**." **And he added** "**we are more than happy to pass these savings on to our customers**."

However, it's important to keep in mind that **what you pay for electricity is dictated by policies of your elected officials**. City-owned Austin Energy is simply following policies laid down by previous Austin City Councils, and certain city energy policies have come under heavy fire recently. Current and future Councils will also now weigh in. All this bears watching.

An examination of home mortgages in Austin reveals some interesting facts about how homeowners are faring these days. When compared to mortgage-holders in the 25 largest metros in the US, Austin homeowners don't have too much to worry about. And when you drill deeper, you find some interesting tidbits – such as what percentage of Austin homebuyers paid cash and what percentage made a down payment of 10% or less.

Even though homebuyers in Austin feel they are paying top-dollar – and they are right, compared to where the market has been in the recent past – **the strong housing demand and rising values keep the Austin area near the top of the "healthy heap" when looking at major metros around the US.** What will happen when the economic slowdown occurs is the topic for another day. But a review of the current status, as reported by WalletHub, provides a benchmark. Let's check out a few of the 10 key metrics WalletHub examined.

More than half of Austin homebuyers made a down payment of less than 10% (54.26%, to be exact) … 21.56% made a down payment of 11% - 20% … 14.28% made a down payment of more than 20%. Almost 10% bought their home outright (9.91%). **One conclusion is that more than half of Austin homebuyers had a strong credit score and enough income to cover the mortgage.**

Okay, but how many homeowners are "underwater?" In other words, they have less than 0% equity in their home. **Only about 7% have underwater mortgages in the Austin area. Strong. Austin's 7.29% ranks #3 in the Top 25 metros.** Compare this to the national average of 15.12% and Houston's 10.70%, Miami's 25.94%, Tucson's 28.28% and, the worst of the Top 25, Las Vegas with 38.58%.

All right, then. How many Austin mortgages are "precarious" – with only 0%-10% equity? **Austin's number is not quite as good. 10.55% of Austin mortgages are "precarious."** The national average is 9.97%. And the worst is Nashville's 16.74%. The best is Boston's 5.46%.

Remember back before the "real estate recession?" Loans were granted almost willy-nilly. No proof of income was required. **Many called them "liar's loans" because the homebuyer did not have to prove what was claimed as income.** Then the bottom fell out and housing cratered. So loan requirements were tightened. And now they are loosening somewhat.

So how many "easy mortgages" are being granted now? And how do Austin lenders compare to the other Top 25 metros? WalletHub reports that **11.68% of first mortgages were granted in the Austin area without proof of income, assets or debt.** Not good. But not bad -- *as a percentage*. The national average is 17.02%. The lowest/best is Boston's 9.25%. The highest percentage/worst is Tampa-St. Pete, Florida with 23.97%.

It's intriguing when you look deeply into the market. Draw your own conclusions.

The doomsayers have been wrong, at least so far. You know: the ones who said when oil prices dropped dramatically the Texas economy would suffer greatly. Sure, certain areas have felt the burn. But the total impact has been minimal. In fact, some sectors – such as housing – have even thrived.

No doubt oil prices plummeted. Hey, it's a **dramatic dive when oil was selling about $100 per barrel last year and now is roughly half that**. Admittedly there have been layoffs at some oil companies, state revenue from oil taxes has suffered and some local Texas oil-driven communities have felt the impact. But, when you look down at the state economy from 30,000 feet, you would be hard-pressed to see any devastation. **And Austin is the poster child for economic exceptionalism**. First, two points about oil:

1) Our friends at *The Kiplinger Letter* predict "after a brief rally in late summer, we expect crude prices to slip back in late fall to around where they are now… **in the neighborhood of $50 per barrel**"; and

2) **Cheap oil spells cheap gasoline**. *Kiplinger* suggests the "national average of regular unleaded gas will be about $2.50 when the summer driving season winds down." And it could be cheaper in Austin. (We've paid less than that every time we filled up -- at Costco -- since June.)

You know we have kept you up-to-speed regularly on Austin's economic exceptionalism. The stats are unblinking. Of course, you know what's happening to real estate, particularly housing, in Austin. **Housing, for better or worse depending upon your perspective, is off the charts with strong demand, brisk sales and rising prices**. But what about the state?

Interestingly, **the state's housing picture is showing much of Austin's same strengths** – just not at the exceptional level as in the Austin area. The chair of the Texas Association of Realtors **Scott Kesner says "Texas home sales are actually stronger than they were this time last year, when oil prices were nearly $100 a barrel**." Some of his examples:

Texas home sales increased … the **median price of Texas homes increased** to an all-time high for Texas home prices … monthly **housing inventory continued to decline** 9.2% to 3.8 months. Remember TexasA&M's Real Estate Center estimates a monthly housing inventory of 6.5 months is a level at which supply and demand for homes are balanced. **Obviously, demand is very high now – again much like in the Austin area**.

Speaking of the Aggie real estate center, its research economist **Jim Gaines says "preliminary numbers indicate a positive third quarter of 2015. Additionally, the expectation of rising interest rates in the near future could be stimulating demand as well**." Gaines made this assessment after factoring in the oil price situation in Texas.

One final note about housing, **specifically about Austin apartments**. **Occupancy percentage remains constant** (**primarily due to new units sucking up tenants**). **But rental rates are higher**.

New apartments are coming on line as we speak. More than 2,100 units were completed in the 2nd quarter. Currently, 20,780 are in various stages of construction, according to **Robin Davis** who tracks apartment stats. And, on top of all that, she says an additional 7,500 units are expected to begin construction during the next 12 months. **Rental rates for Austin area apartments have increased every quarter for the past 24 months**. Will Austin's explosive population growth force-feed this rising rate trend, as more units become available?

Even as the City of Austin puts on a full-court press to help the Austin music scene, **are some of the city's own policies contributing to the concerns of musicians**?

Much of the intensive focus of late has centered – and rightly so – on rising property values that increase rents for music venues. And it's not just that, it's *all* the costs of doing business. The focus has been on the business of music. **But what about the fans who pay the cover charges**, **buy booze and generally support the music scene**? Is the city hurting them?

Music fans don't all live downtown, so how do they get to, say, the Red River area which is one of the very few places you can park a car once and go to a number of music venues? **Vehicle access to downtown is getting difficult as a result of the city's policies to restrict vehicles**. And this has come with a reduction in parking.

Oh sure, there is public transit. But, by definition, music venues operate during the late night hours. **Public transit is limited at those hours as well as by geographic reach**. Is the impact on the music biz, and its money-spending fans, an unintended consequence of the Austin's restrictive vehicle/parking policies downtown?

Speaking of money, **Dr**. **Louis Overholster** says most money is tainted: t'ain't yours and t'aint his.

Sincerely,

Neal Spelce

Editor/Publisher