The NEAL SPELCE AUSTIN LETTER

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Dear Client:

Okay, **where does Austin stand economically as it dives into the turbulent waters of 2016**? **After all**, **a bulwark of the Texas economy – oil and gas – is trying to keep its head above water as the industry is being pulled down by rapidly-dropping prices**. **And even though drilling is not noticeable in the Austin area**, **the local economy can be impacted**. **Bottom line**?

As we have noted in the past, keep your eye on tax revenues paid to the state. **If tax revenues drop precipitously**, **state employees could be affected**. But, this is not likely in the near term as the Texas Legislature that sets the budget parameters does not meet for another year. According to CivicAnalytics' **Brian Kelsey** state government accounts for about 7.5% of total employment in Austin, so it will be a factor to watch as we near 2017.

Another worry is the decline in **investment dollars that have been flowing into Austin**'**s hot economy** because oil-rich investors – especially from Houston -- may suffer from reduced assets. Again, there has been no noticeable impact on Austin investments. So far, so good. But it bears watching.

Frankly, the Austin economy is doing so well it will take very dramatic developments to knock it off its feet. For instance, **Kelsey reported this week unemployment in both the Austin city limits and the 5-county metro area is the best it has been since the high-flying dot-com era**. And this is pushing wages higher. He says it has taken 15 years, "**but average wages in Austin are finally back to the pre-dot-com recession levels**."

Austin's economic diversity is a key. Yes, government payrolls are very important. But Kelsey noted "**total employment in the tech sector in Austin has surpassed peak employment in the dot-com era**." The tech growth rate in Austin between 2010 and 2015 was 27%, "**nearly double the growth rate of other leading Texas markets** and well above most peer markets around the country with the exception of San Francisco (42%) and San Jose (31%)."

Job growth is fundamental to a strong economy. **But are people flocking to Austin in such high numbers that this could have a negative economic impact**? Not for the near term. You may recall in a previous edition of this newsletter we pointed out a recent study by the Austin Technology Council that reported "**local demand for skilled tech workers will outpace supply by more than 2**,**000 people each year**." See the next item for more economic info.

Many of the problems and concerns plaguing the Austin area these days are the result of growth. Growth is going great guns, with no immediate signs of slowing. (**However, be honest, would you rather be suffering through a stagnant economy like so many of the** "**once-great**" **cities are struggling with today**?) **And we will reach a major growth milestone in just a few weeks**.

As far back as September 25, 2015, we were among the first to predict the **5-county Austin metro population will have reached the 2 million population mark in 2015**. (Click on the Archives button at the top for the details in that edition.) We just did a little simple math to come up with that forecast. No big deal. But it should be officially confirmed in March when the USCensus Bureau releases its new figures.

This means traffic will get worse each day during 2016. "**Traffic is an inevitable consequence of economic growth**," **said Brian Kelsey**, principal at CivicsAnalytics. Can anything be done to soften the blow, Brian? "**Until people make different decisions about where and how they want to live – contingent on having more affordable housing and better transit available to give people that choice of living differently – traffic is going to get worse**."

And worsening traffic inevitably means more difficulty *parking* – especially in downtown. Austin is facing growing downtown parking problems as we speak. "**When parking becomes totally inadequate**, **chaos can follow**," warns **Mary Scott Nabers**, CEO of Strategic Partnerships, Inc.

"As the downtown area continues to grow, parking has become a huge problem," Nabers noted. "**Valet parking**, **once an option for restaurants and other retail locations**, **has reached capacity and new restaurants and retail businesses cannot provide valet parking because there is no space left in the downtown area**."

"Because of the imbalance in supply and demand, if someone is lucky enough to find a parking space in downtown Austin, **the average parking space costs $6 for the first hour or $21 for three or more hours**," Nabers pointed out.

Are parking changes likely? Nabers said a study is being conducted by the **Downtown Austin Alliance hoping to find a way to ease the problem without stopping future downtown development**.

Austin is not alone facing this situation. Nabers points out other big cities are also seeking solutions: "**parking has become a critical problem for many large cities**," she said. "**Discouraging personal vehicles downtown is intentional on the part of transportation planners**." This is the reason for the increase in expenditures for bike lanes, ride-sharing cars and bus rapid transit systems.

Get ready for this: **it is entirely likely the Austin City Council**, **led by Mayor Steve Adler**, **will set another bond election for November** – **at the same time you will be casting your vote for the next US president**.

You will probably be asked to vote on funding for a variety of transportation solutions. Mayor Adler, as recently as this week, said this is the "**Year of Mobility**" **in Austin** as he ticked off a variety of projects he hopes to take "off the shelf" and set in motion.

And the biggies like IH35 and Loop360 were on his list, **along with other smaller** "**fixes**." He said he did *not* anticipate any movement on rail this year.

Your air travel out of Austin-Bergstrom International Airport (**ABIA**) **just got a bit easier this week**. **The Transportation Security Administration** (**TSA**) **activated an expedited screening program that is already in effect in a number of other US airports**.

Many Austin frequent fliers have already been pre-approved and use this quicker way through screening at other airports. Now, ABIA will be joining the program. If you are approved to participate, what are the perks?

Well, if you are TSA PreCheck approved, there is **no need to remove**: **shoes at security checkpoints**, **your 3-1-1 liquids**, **laptops**, **light outerwear or belts**.

When you consider more than 10 million passengers used ABIA through November, this process could be significant. Of course, it speeds up the process for those who have been pre-approved. But not only does it benefit them, it takes them out of the "regular" screening process. **And this lessens the load on the routinely-screened passenger line**.

To qualify you must pass a background check, be a US citizen or Lawful Permanent Resident and **make an in-person visit for an interview at an application center**. The cost is $85.

Heads up! **At the end of January**, **proposed new residential and commercial electrical rates will be presented by Austin Energy** (**AE**) **to the Austin City Council**.

What can you expect the city's "cost of service study" will show? Don't know for sure. But check what we reported AE's departing GM **Larry Weis** as saying just last week: "**Weis suggested raising residential rates even higher**." You can learn more about the process, which includes the requisite public hearing, by going to www.rates.austinenergy.com. The Council has the final authority to set retail rates. Stay tuned.

The demand for affordable housing in the Austin area is well-documented. Especially as the cost of buying or renting rises regularly. One factor making a shortage of affordable housing worse is banks' reluctance to finance the development or to rehab smaller multifamily properties. But there may soon be a solution for Austin area financial institutions.

While credit is flowing at the higher end of the apartment market, it's nearly at a halt for older, smaller properties that make up the bulk of the affordable housing stock. **Many smaller banks have lost their appetite for financing the purchase of smaller properties because new rules would require them to hold too much capital against those loans**. There's also not much of a secondary market to take these loans off the banks' hands. And, there aren't a lot of financial institutions that are in a position to do long-term financing without someplace to sell a loan.

This could change – and soon. **A new federal program will allow lenders to sell the loans to a governmental entity called the Federal Financing Bank. This would free up more capital while relieving banks of any interest rate risk**. It's not a true secondary market, but it serves the same purpose of providing funding and liquidity.

The other side of the affordable housing coin involves developers, who generally prefer to build, or buy, market-rate or high-end apartments that generate fatter returns. So, what will entice developers, when funding eases, to make a better return on their investment? **The key to keeping properties affordable is not to "overimprove" them**, claims one Los Angeles-based developer who over the last two years has invested about $300 million in affordable housing across the country, according to the *American Banker* trade publication.

Refurbish, don't replace, kitchen cabinets is the investor's advice. Make lighting more energy efficient. And resist the urge to rip out those 1970s era popcorn ceilings which could add $50 or $60 to a tenant's rent. As the developer put it: renters can afford a $300 flat-screen TV so they aren't looking at the ceilings. Common sense?

Dr. Louis Overholster says common sense is so rare, it should be classified as a super power.

Sincerely,

Neal Spelce

Editor/Publisher