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Dear Client:

You've seen the acronyms AUS and ATX referring to Austin. How about ASA? For Austin-San Antonio. We may be getting way out front on this, but there is continuing evidence that the two fast-growing, very-different cities may be moving in that direction. Hey, it happened north of us as Dallas and Fort Worth morphed acronymically to DFW. And both of those metros arguably benefitted, while keeping their separate identities.

It'll be a long time before the Capitol City and the Alamo City become one large geographic entity. But if you're interested in the future of this area, this is one element that bears watching. **Little by little, the two distinctively-different cities are become more and more interrelated.**

One example is Austin's bailiwick – tech companies. A San Antonio commercial real estate exec told *Bisnow* the Alamo City is seeing some Austin tech companies growing their support staffing in San Antonio **“where the occupancy cost is literally half what it is in downtown Austin, and talent is still available.”**

Action is not only taking place in the two big cities. **The smaller cities in the corridor between the two are feeling it as well.** The tech giant Amazon has opened its *second* fulfillment center in **San Marcos**, where 855,000 square feet is under construction. Earlier, just north of San Antonio, Amazon built a 1.2 million square foot center in **Schertz**.

While this newsletter has had a laser-like focus on Austin's economy and growth since our founding 37 years ago, we've kept a watchful eye on San Antonio – comparing and contrasting these two cities that have been taking an economic back-seat to Dallas and Houston. **San Antonio is feeling its oats now. It is quite healthy, but there is a very significant contrast:**

San Antonio leaders are crowing about a new Frost Bank Tower that will be the **first downtown office tower built in the Alamo City in 30 years?**
Can you believe it? Thirty years! It seems like a downtown office tower is being announced in Austin every 30 minutes (okay, okay, so we exaggerate)!

Speaking of that, is Austin's fast pace of construction creating a **risk of overbuilding of office buildings?** Let's examine that in the next item.

Infrequent visitors to downtown Austin are aware of the changing skyline. But when they make a trip downtown, they are likely to say “now, what is that building there?” or “I didn’t know about that structure” or even “what-in-the-world is going to be built atop that huge excavation?” All of this tends to raise another question: is there a risk of overbuilding?

Space doesn’t permit us to list all the just-completed, under-construction, or in-the-planning stage projects. And we’ll tell you about the new hotels in a later edition. So for this report, let’s concentrate on **construction that is primarily for office buildings.**

Remember, it was not that long ago that mostly-vacant office buildings were a part of the skyline. And they reflected a suffering economy. **So here’s a quick snapshot of almost a million square feet of office construction.**

29-story building at 500 West Second Street. It is about 50% pre-leased and is set to be completed by 1st Qtr 2017 ... **Shoal Creek Walk at 835 West 6th Street.** It is also about 50% pre-leased and due to open in 2017 ... **A building at 5th and Colorado Streets** is due to be complete in 2nd Qtr 2018 ... **29-story Third+Shoal** on the site of the current Austin Music Hall is set to open sometime in 2018. There’s more, especially mixed-use structures.

And this is on top of other new office towers already open for business, such as the **IBC Bank Plaza**, the remodeled space at **501 Congress** and the **Colorado Tower** at 303 Colorado Street. You get the picture. And don’t forget there are other announced office projects close to, but outside, the traditional downtown boundaries – such as Oracle’s newly-announced, large campus on Lady Bird Lake.

So. Overbuilding? Managing director **Mike Kennedy** of **Avison Young** told *Bisnow* **the phased delivery dates over the next two or three years appears to mitigate risk of overbuilding at this point.** Of course, this assessment depends upon the red-hot growth rate of Austin’s economy continuing.

How about another opinion – one with a view of the state as a whole? **“The office market typically goes through cycles of heavy construction, followed by a lull to let the market catch up before beginning more construction,”** notes **James Gaines**, the chief economist of the TexasA&M Real Estate Center. “This type of supply is called ‘lumpy’ – a good economics term.”

As you look out a couple of years, if Gaines historical reference about “lumpy” is accurate, **you can look for a slowdown in Austin office building construction after 2018.** He also noted that “it’ll be interesting to see how that new space competed with the existing sublet space.”

Gaines said **“the commercial outlook is generally positive, despite the fact we expect the (Texas) economy to slow down.”**

The Austin Independent School District (AISD) released a report recently that suggested student enrollment will continue to decline annually. In fact, the demographic study projected AISD could lose more than 6,000 students in the next 10 years. Following that, AISD's media relations department put out a news release this past Wednesday with the headline "AISD Wants All Students Fed: Before, During and After School." Coincidence? HmMMMM.

AISD has lost students for three consecutive years and the current projected 10-year loss jumped by 2,000 students since last year. At the same time, other school districts and charter schools have increased enrollments. AISD has even hired an ad agency to help. A lot of factors are at play here – such as cost of housing in Austin, exceptional quality in other districts such as the Eanes ISD, and an overall move to the suburbs for families with young children.

Now AISD is talking about giving free meals – three times a day – to every single student enrolled in its schools, regardless of economic circumstance.

Is this an effort to boost enrollment? Remember, free meals started out as a free "school lunch" program for students whose families couldn't afford to pay the tab. Currently, *dinner* is now available at 47 AISD sites. So, three meals a day, every school day, is not that much of a leap.

AISD is the largest school district in Central Texas. It serves more than 83,000 students at 130 schools. So this is a big deal. But, is it a trend that could expand to other school districts, or is it simply a move to try to stem the bleeding of AISD's enrollment? Good question.

Interestingly, school district officials point to the fact **AISD is already feeding student athletes at high school after school every day** – and it has increased participation in the program overall each month. "Nutritious meals for our student athletes will ultimately help them perform better academically," said AISD's athletic director.

One of the biggest concerns for the future of economic development in the Austin area is the **quality of its workforce education.** This bears watching for its impact on the economy.

Speaking of food, didja know that Texas grocery goliath H-E-B is moving into the fast-food, convenience store-gasoline business? With the strength, the reach and the dominance of H-E-B in Austin and around the state (also in Mexico), this is a trend worth watching.

Right now, it's a toe-in-the-water experiment. Based in San Antonio – after starting in the Hill Country and Corpus Christi -- the privately-held **H-E-B is moving forward with plans to construct its first convenience store and fuel station, in the San Antonio area.** According to a *Virtual Builders Exchange* report, it will be located near Bandera Road and North Loop 1604 West in San Antonio. It's interesting to note H-E-B is jumping into this space at a time gasoline prices are low -- averaging near a buck-50. But they have the muscle to make it happen.

Even though statewide Texas officeholders are not running for re-election this year (they are in the midst of 4-year terms), most of them have raised almost-obscene amounts of money for... whatever they plan to do in the future. And their current campaign piggy banks serve to scare off possible opponents for... whatever they plan to do in the future.

It's relatively easy to raise money when you are a current officeholder. **After all, who wants to tick off a state official when asked to donate – especially when the official has no opponent on the horizon?** So the money has been flowing-in. But the totals right now for some of them are quite impressive (staggering?). Check out the totals that are sitting in the bank today:

Gov Greg Abbott -- \$22.5 million.

Lt Gov Dan Patrick -- \$7.6 million.

House Speaker Joe Straus -- \$8.89 million. (He has primary opponents this year, as he seeks re-election to his State Representative San Antonio seat).

Attorney General Ken Paxton -- \$2.5 million.

State Comptroller Glenn Hager -- \$3.2 million.

Land Commissioner George P. Bush -- \$3 million (He is spending some time this year campaigning for his father, Jeb!, who is seeking the presidency).

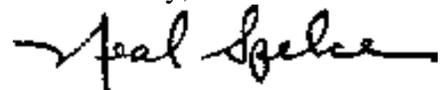
Agriculture Commissioner Sid Miller -- \$20,825 (this total is correct).

Interestingly, with the downward spiral of oil and gas, the three Railroad Commissioners (who hold sway over the fortunes of Texas' energy future) have hauled in some big bucks. **David Porter** (who said he is not seeking re-election) reported \$1.2 million cash on hand ... **Christi Craddick** reported \$1.3 million and **Ryan Sitton** said his cash on hand totals \$378,488.

It's become common practice for many officeholders to use their campaign bank accounts to **cover costs not associated with carrying out the functions of their office** – such as travel, entertainment, even additional aides, etc... for whatever they plan to do in the future.

Speaking about governing, **Dr. Louis Overholster** suggests you teach your kids about taxes by eating 30% of their ice cream!

Sincerely,



Editor/Publisher