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Dear Client:

“In all of our years covering the Austin area’s apartment market, there has not been a more prosperous and active development cycle than the (most recent) two years ... rent increases were unparalleled ... while occupancy remained quite stable ... despite the plethora of new units hitting the market,” notes a longtime Austin apartment trend tracker. **So, what about this year?**

“While 2015 met many forecasted expectations, it has actually been a remarkable six-year cycle,” observed **Robin Davis** in the Austin Multi-Family Trend Report. **However, the logical question to ask is how long will this last – especially since new apartment units are expected to increase dramatically?**

How many new apartment units are we talking about? **“During 2016, it is expected that new unit deliveries will increase 37%, meaning that nearly 15,000 new units will be added to the market,”** said Davis. Wow. This is a tremendous increase over several very active years.

Anybody getting nervous out there? **“Thus far, developers do not appear to feel threatened by the general market or financial changes,”** she said.

Okay, many developers like to keep the pedal to the metal. But what about those who provide the money? **“Capital markets are said to be a little nervous with record high new product entering the market and along with a 6-year progressive rate of return that may or may not continue,”** she admitted.

That’s understandable. **Financial interests are generally more cautious than builders that are racing to beat the competition.** So, does this reflect a slowdown this year?

Ummm, not necessarily, especially if you look at buying and selling apartment buildings in the Austin area. **“Investment interest remains high with over 91 transactions during the year and marketed properties selling soon after listing and close to asking price,”** Davis reported.

Bottom line? **“Look for 2016 to bring about additional sales, rent challenges in pockets, heightened completions and positive absorption to continue,”** she predicted.

Oil tycoon T. Boone Pickens has cashed out on oil. And, Texas energy officials are offering conflicting opinions on the impact the declining oil/gas industry is having on the state. Meanwhile, the price of gasoline at the pump continues dropping each week. What gives?

The average Austinite may be wondering what all the fuss is about. **After all, it only costs about a buck-and-a-half-a-gallon for gasoline at some service stations in the area.** Not bad, if that is the only effect felt by many. Yep, life is pretty good in the Austin area.

However, it's a different story if you live in the heart of the West Texas oil patch. Take Midland. Midland home sales were down 22% in 2015's 4th quarter. Foreclosures in Midland are up 40% over the previous year. **The single-family housing market has been hit hard by falling oil prices – unlike the robust housing market in the Austin area.**

Billionaire Pickens has sold all his oil holdings, and he told *Bloomberg News* he is waiting for the best moment to get back in. Crude oil prices have slumped 70% since June 2014. Pickens predicts oil production will soon slow in Texas and that will boost oil prices back to the \$50-\$60/barrel range by the end of the year, as long as the economy doesn't enter a recession (it's nearing the \$25 range now.)

Pickens told *Bloomberg*: “The low is in. **Just don't get in a rush here. You're going to have plenty of opportunity.** The market is going to be volatile. It's not going to go straight up, so there will be good entry points.”

Speaking of Midland, Texas Railroad Commissioner **Christi Craddick** went back to her hometown to point out that her agency (which oversees Texas oil and gas) feels “**when demand for oil rises again, as it is certain to, Texas will be well-positioned and ready to respond.**”

However, State Comptroller **Glenn Hegar** reported that due to the slumping oil and gas industry, **sales tax revenue dropped 4% compared to the same reporting period a year ago.** And in the oil and gas production sector, sales tax revenue was down 45%.

Of course, **declining sales tax revenue hits Austin where it hurts.** Income from the sales tax is the largest single revenue source for state government. And, obviously, **the bulk of state agency jobs and payrolls are in Austin.** So this bears watching closely.

Craddick had a message of long-term optimism: “an ample supply of oil, a skilled workforce, vast infrastructure, cutting edge technology and innovation, and sensible government have allowed producers to **cut back overhead costs and sustain in times of low oil prices.** Frankly these factors have allowed companies to **better weather the downturn.**” She said these are a few of the key reasons companies from across the world choose to produce energy in Texas.

It's hard to overestimate the impact on downtown Austin if nineteen acres of tree-lined waterfront abutting Congress Avenue is developed. That prospect is coming closer to reality. Right now, the site is home to the *Austin American-Statesman*. And this week, the family controlling the property sent word to developers it is soliciting an RFIQ – a request for interest and qualifications.

Why is a venerable institution, that traces its Austin origin back 145 years to July 1871, taking this significant step? **Two reasons: money and money. Oh, and there's a third reason: money.** The *Statesman*, like all newspapers, has been struggling for years in this Internet Age.

***Statesman* advertising revenue is down and the number of readers has diminished greatly from the heyday.** Again, like all newspapers, the *Statesman* is trying to re-make itself to keep up with the changing way information is disseminated. **It's online presence is being expanded regularly.**

The newspaper is no longer printed at its lakeside site in Austin. **It is printed in San Antonio and trucked overnight to be tossed on Austin front porches the next morning.** With the printing function outsourced, the current newspaper operation can move to cubicles located in any office building – probably close to City Hall, the Courthouses and the State Capitol news sources – and function quite efficiently. Logical. And it makes financial sense.

No matter what happens to the site, ***American-Statesman* officials say it will continue to operate in Austin.** The newspaper itself is not on the market.

Now, about the probable development of the land that has developers drooling. **This will more than likely be a long and costly process.** Big-time developers will check it out as Austin is one of the hottest markets in the US, even the world. It will be fascinating to watch. And, believe me, when the sale and development come to fruition, the ripple effect downtown and along Riverside Drive will be something to behold.

What's this? The Lower Colorado River Authority sent out this word late this week: "LCRA urges lake users to prepare for potential floods." This is in spite of the fact it also reported "a very dry start to 2016" with more of the same expected through late next week. The LCRA's reasoning: in the midst of this dry spell, flood-controlling Central Texas lakes continue to rise.

The amount of water flowing into Lakes Travis and Buchanan in January was the highest recorded January since 2010. They are up to almost 90% of capacity. A year ago, they were at 35% capacity. The weather-maker El Nino is still out there. **Central Texas has been dubbed "Flash Flood Alley" because of the propensity for sudden, unexpected rains and floods.** So LCRA is encouraging boat dock owners to maintain and secure their docks and watercraft now.

The headlines this week read “Austin Airport Breaks All-Time Record in 2015” and “Austin Airport Breaks Passenger Record in 2015.” This was not the most important aspect of the development, because the same headline could have been written in 2014, 2013, 2012, and even in 2011. It’s what contributed to nearly 12 million passengers crowding Austin-Bergstrom International Airport (ABIA) in 2015 that was significant.

This was the 5th consecutive year an “all-time” passenger record was set. And it truly reflects the **population and economic growth of the entire Central Texas area**. But, there is *more* to this increase in passenger traffic. The reason? It’s a lot easier to get to where you want to go.

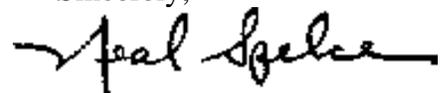
As a result of last year’s developments, **you can now travel nonstop to eight new destinations (a seventh new nonstopper will be added in June – Frankfurt, Germany). And additional service was added to six existing nonstop routes.** (Consequently, **Dr. Louis Overholster** can no longer tell his tired joke “when you die, it doesn’t matter if you’re going to Heaven or Hell, you will have to change planes in Dallas!”)

Last year, frequent flyers noticed expansion construction inside the **Barbara Jordan** terminal. And **during 2016, 2,000 new covered parking spaces, as well as a pet boarding service, will be available.** But the big 2016 story will be the beginning of construction of nine new boarding gates to the terminal

By the way you probably won’t be surprised to learn the four major airlines serving ABIA retained their hold on the market – despite the new airlines joining the mix. The 1,000-pound gorilla **Southwest Airlines continued its dominance, carrying 40.8% of ABIA passengers in December.** It almost doubled #2 American Airlines (20.7%). United Airlines was in 3rd place (15.8%) and Delta Air Lines was in 4th place (11.3%). All other carriers were in the low single digits. The rankings for all *year* stayed in the same order, with slight percentage variances.

Speaking of travel, Dr. Louis Overholster says the fact that songs refer to a “Highway to Hell” and only a “Stairway to Heaven” says a lot about anticipated traffic numbers.

Sincerely,



Editor/Publisher