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Dear Client:

**If you go almost anywhere in the Austin area, you are likely to see signs of construction – all kinds of construction: roadways, commercial, residential, utilities, governmental, etc. While disruptive to normal activity, these are signs of progress, of vitality, of economic momentum. So what has happened to construction costs and wages in the area?**

Not surprisingly, Austin construction costs and wages have gone up over the last five to ten years. As construction projects have fluid employment cycles there is volatility in the industry. **However, due to the fact there is so much building occurring in multiple industries, workers can move from job to job in the Austin area relatively easily.** (You may recall our previous report of workers packing up and moving to South Texas for much higher-paying jobs in the oil patch during the boom times. Those jobs have tailed off in the past two years.)

**Construction cost increases?** According to a new report from CBRE Group, **Austin led the nation in construction costs increases from 2011 to 2016. Austin's increased costs zoomed past 17%**, compared to #2 Los Angeles at a bit more than 13%. Atlanta, Dallas, San Francisco, Chicago, Houston and Portland – all notched just more than a 12% increase. The remaining cities fell below the national average of a 12% hike.

**Wage increases?** Well, between 2005 and 2015, **Austin didn't clock in at #1; it came in at #3 with a 31.6% increase**, barely behind #2 Phoenix (31.7%). Texas cities registered three of the four largest increases in wages. Joining Austin was Houston (45.2%) and Dallas/Fort Worth (31%), according to CBRE.

You don't need to tell Austin area contractors or project owners that construction costs have risen out of proportion to the rest of the nation. But interestingly, CBRE notes that **while Austin construction costs rose 17.4% over the 5-year period, costs were actually flat in 2016.** Could this be the start of a trend? Bears watching.

Keep in mind when you talk about rising wages and costs, you're talking about dollars flowing through the Austin area economy. Big dollars. So all this disruptive construction in multiple industries is **shoving dollars into jean pockets of your neighbors.** And, true to human nature, **those dollars are mostly spent – rather than saved, helping your economy.**

**The cost of living in Austin is rising, forcing many to move away from the heart of the city to find affordable housing. Some blame the large tech salaries, saying tech-sters can pay the higher rents and prices, while other salaried workers in Austin cannot keep up. So, to help address the affordability problem, should a payroll tax be levied on tech companies that operate in Austin? What! Well, this is being proposed in San Francisco as we speak.**

It's a serious effort, but not yet enacted in SF. The **1.5% payroll tax** was just proposed this week. The measure's co-author was quoted in San Francisco media as saying: "The tech boom has priced out residents and small merchants. **The surge in housing demand brought on by the tech sector and its highly paid employees make it increasingly difficult for residents and families to remain in their homes.**" Sound familiar?

The San Francisco Board of Supervisors (equivalent to Austin's city council) is considering a **Homeless and Housing Impact Technology Tax**. The revenue would go to homelessness programs and "anti-displacement initiatives." It is projected to raise \$120 million. This will be in addition to SF's gross receipts tax.

Critics of the proposal fired back, claiming **SF city officials have created a housing shortage by making it extremely difficult to develop residential projects**. So, the debate begins. The tax is subject to a final majority vote by the Board of Supervisors, likely to happen in early August. If adopted, the tax would go before the voters for final approval in November.

Don't know if this San Francisco effort was a trigger-point, but it certainly coincides with tech steps taken this week in Austin. **The Austin Technology Council (ATC) is launching a new aggressive lobbying effort to focus on actions considered by the Austin City Council**. This is the first time tech companies have organized to lobby local officials (including county and state government) though it recently endorsed the \$720 million transportation bond proposal put forth by Mayor **Steve Adler**.

ATC is a large association, with almost 300 tech companies as members. It has created a sub-group to concern itself with "policy." The smaller policy coalition is co-chaired by BuildASign CEO **Dan Graham** and Calavista Software co-founder **Lawrence Waugh**. Other members of the sub-group include an educator and a high-level Google exec.

**Veteran business observers say it's about time the tech community became more heavily involved in Austin issues**. They've long been a major part of Austin's economy, but have remained mostly uninvolved for years. Why now? Well, forgetting the possible SF tax proposal, **the very essence of technology-driven companies has come under public scrutiny in Austin recently**. The election concerning app-driven Uber and Lyft ride-sharing companies that compete against taxicabs is one very visible example. Some tech investors expressed concern about this scrutiny, questioning just how "un-friendly"-to-tech Austin is becoming.

**The future of commuter rail service between Austin (well, really, Georgetown on the north) south to San Antonio could be determined as early as next month. The long-discussed Lone Star Rail project is on the Capital Area Metropolitan Planning Organization's (CAMPO) August agenda. This is when a vote crucial to moving ahead with commuter rail will be taken.**

CAMPO has wide-ranging authority over all kinds of transportation projects. The 6-county regional body's approval is essential, especially when it comes to funding. So the August vote will be closely watched. The vote: **whether to continue an expensive, and expansive, environmental study of possible routes.**

As with almost any group composed of elected officials, **there is no unanimity – in fact, there are a number of preferred options ... including NOT moving forward.** No need to get into the weeds on past history, or what options they're wrestling with. This is just a heads-up that a normally-slow month of August may be important for the area's transportation future.

**While on the subject of future rail transportation, the proposed privately-funded bullet train initially connecting Houston and Dallas may get caught up in governmental regs. But it's privately-funded. Why does the government need to get involved?**

A little something called eminent domain is the reason. Does privately-owned Texas Central Partners have the right to **enter private property to conduct land surveys and "ultimately take" needed right-of-way, with compensation to landowners, under the power of eminent domain?** Eminent domain has long been used to acquire *private* property for *public* purposes, such as highways, utilities, etc. In this case, some rural landowners are balking.

Why is the proposal to shoot passengers between Dallas and Houston in less than 90 minutes important to the Austin area? **Because, the developers have indicated the Austin area is on their radar for future high-speed rail,** if the Dallas/Houston initial effort proves successful.

**The market for luxury Austin area homes, priced at a million dollars-plus, seems to be cooling, even though lesser-priced homes are still selling at a red-hot pace.**

Don't be misled. Austin luxury homes are still selling at a robust pace, compared to previous "soft" markets. But the pace is slower than 2013, or the highs of 2015, according to Independence Title's **Mark Sprague.**

**"Trophy properties are taking almost three times as long to sell in Austin as what the rest of the market is doing,"** he says. He suggests luxury home-sellers avoid "ego" pricing. His advice: **"As an analyst, I will tell you if priced correctly, it should still sell."**

**Well, the weather forecasters were right about El Niño. Give 'em credit. El Niño caused such a shift toward heavy rainfall that Central Texas lakes are full and many area counties were declared disaster areas due to flooding. Okay. But what do the forecasters say will happen now that El Niño is gone? Its evil twin, La Niña, could be next. Tell us about it.**

Without getting into meteorological language, **the two weather events take place in the waters off the western coast of South America** and when they occur they affect our area.

You've just seen what happens with El Niño. **La Niña generally means warmer and drier conditions for most of Texas.** The current forecast from those who were spot-on about El Niño: the Climate Prediction Center projects a **75% chance of La Niña conditions developing this fall and winter.**

The Central Texas area is starting out in a good place – with drought-free conditions. **But with 100-degree days looming as we begin July, “warmer and drier” weather this fall and winter could have special meaning.** You're now forewarned.

**Here's dramatic change of another kind: for the first time since the late-1800s, there are more young adult Americans living with their parents than with a spouse or partner. As a matter of fact, according to Texas economist Ray Perryman about one of every three people in the 18-to-34 year old age group is living with parents. Take a moment to let this sink in.**

A phrase has been coined to address this change. When kids move out of the family home only to come back, they are referred to as the **“boomerang generation.”** Perryman says **“the social and economic implications are significant,”** as this began to escalate in the early 2000s, after leveling off somewhat during the 1980s and 1990s. Obviously this bears watching.

When told about the “boomerang generation,” **Dr. Louis Overholster** lamented that he child-proofed his house -- but the kids still get in!”

Sincerely,



Editor/Publisher