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Dear Client:

Never in Austin's history have we seen such a spate of hotel construction. And it shows no sign of slowing. Millions of dollars for new hotels are being committed at the same time other hotels are nearing completion. Obviously Austin is a hot market in many ways. But, can all these new hotel projects be successful – especially without damaging existing properties? It's all about REVPAR. What's REVPAR? We'll explain.

Austin's reputation as a destination extends well beyond the US borders. In fact, one participant in Austin's festival/event scene recently referred to Austin as "the place where the world comes to party." An exaggeration, obviously. And, of course, the travel and hospitality business is much more than that. But it is anecdotal evidence of **how this remarkable city has emerged as a leader in the travel business.**

When these visitors come to Austin for pleasure, business, conventions, etc., they need a place to stay. **Hotel developers are investing millions of dollars to meet that demand and they expect a hefty return on their investment.** They don't just stick a wet finger in the air to see which way the travel winds are blowing. They analyze REVPAR (there's that word again). **It means Revenue Per Available Room.** And Austin's REVPAR numbers are impressive.

San Antonio has long been a travel mecca. Dallas has a well-deserved reputation as a US meeting and convention center. **But, Austin's REVPAR totals are better than those two widely-known, well-established travel destinations,** according to Source Strategies Inc.'s latest Hotel Brand Report.

In the second quarter this year, **Metro San Antonio hotel operators generated \$75.46** in Revenue Per Available Room. **Dallas hotels did better, generating \$79.45** REVPAR. **Metro Austin hotels swamped them, generating \$111.84** REVPAR. Local hotel operators/developers are licking their chops.

Will this trend continue? Austin's overall economic markers continue to surge -- which helps. **But even more significantly, hotels mount major marketing campaigns. Long before a new hotel opens its doors in Austin, it is aggressively selling room nights** for future bookings, promoting Austin as widely as it can. Multiply this by all these new hotels and you have an exponentially escalating effort that should keep this visitor/hospitality ball rolling.

Another construction-driven sector of the Austin area economy also showed little signs of cooling off in the second quarter. It's hard to distinguish construction cranes working on hotels from those working on office buildings. According to REOC, five new office buildings were added to the market in the second quarter, and still more are nearing completion.

The numbers are impressive. Office buildings vary in size, so let's analyze the square footage. In the 2nd quarter, the five new office buildings that came online added more than 430,000 sf to the market. This brought the year-to-date total to **602,000 sf of new office space.**

While this is a significant number, **almost three times the amount of square footage added in 2016 is still under construction.** Currently there is more than 1.8 million square feet of office space under construction in the Austin area – **most of which has already been pre-leased.**

Another way of looking at this: developers still can't seem to deliver office space fast enough. **Demand continues to outpace new supply. In fact, the vacancy rate tightened to 9.1% last quarter to 8.6% at the end of the 2nd quarter.** A year ago, it was 9.6%. Of course, with this kind of demand, average rental rates are rising – up 4.2% over last year.

A new “urbanized version of suburbia?” Translation: more affordable suburban areas of Austin offering access to amenities similar to those you find in Austin's central city. This phrase is being kicked around when discussing where Austin millennials are likely to want to live now, and in the future. How this ultimately plays out is yet to be fully determined.

As we have reported, many millennials (young adults who are making bigger bucks than in years past) are spending much of their income **living the urban lifestyle in downtown Austin. Sporting active lifestyles, most without children, they like the variety of activities offered downtown.** But prices keep rising and millennials are getting older.

The theory is many millennials will ultimately decide to settle **in urban-burbs -- areas that have the qualities of diverse downtown living without the high price of downtown luxury high-rises.** This is what is meant by “an urbanized version of suburbia.” So, what will these urban-burbs look like?

Instead of grocery-anchored power centers, they will likely be neighborhoods in in-fill locations with **improved public space, walkable amenities** and varying levels of population density. **Transit proximity and commuting opportunities** will be important to support this lifestyle.

One prediction: **the millennials' drive to collaborate and innovate** will likely, in due time, benefit those communities that have a lower cost of living.

Many of the fastest-growing cities in the US are those with a growing technology industry. Austin leads the pack by one measure – a 73.9% growth in tech employment from 2004 to 2014, *FORBES* reported. There is no single, uniform definition of the companies that fall under the tech umbrella, especially as new fields are created at what seems like warp speed. But one thing seems certain: tech jobs breed other non-tech jobs.

Gripes are growing that the millennial-heavy tech jobs are raising the affordability bar in Austin. To some extent, there is a bit of merit to that narrow complaint. But it doesn't take into account the **ripple effect that occurs when a tech job is created**. There's a book out that speaks to this: *The New Geography of Jobs*, by economist **Enrico Moretti**.

Moretti analyzed 320 metropolitan areas. He found every high tech job has the potential to **create five additional local jobs, outside the technology industry. In particular, two professional jobs such as doctors or lawyers, and three nonprofessional jobs.**

The economic ripple effect doesn't stop there. **Both the tech and non-tech jobs generate salaries** that go toward renting or buying homes and all sorts of stuff, keeping restaurant doors and grocery stores open, paying taxes and, oh yeah, adding vehicles to our roadways.

Speaking of jobs, didja know the Austin area was one of only two Texas metros with a very good unemployment rate in the three percentage point range. The other Texas metro that also notched a July 2016 unemployment of 3.6% was – surprise! – Amarillo. No other metro dropped into the 3's. They ranged from the 4's to near 8%. Statewide the average was 5.1%.

The Texas economy is entering a critical period in the 2nd half of 2016, according to Comerica Bank's economist Robert Dye. Blame it on reduced oil field activity that is being felt throughout much of the state, including one of the world's energy capitals, Houston.

The impact is not as bad as Dye first thought, he admits. But he says “we still show a mild recession for Texas in our forecast for this year.” However, looking out a bit further, Dye said **the Texas economy will “expand consistently through 2017.”**

Sure the oil patches like the Permian Basin in the Midland-Odessa area and the Eagle Ford in South Texas are feeling the pain of low oil/gas prices. **But it's Houston that is causing the biggest economic problem for Texas. Why? Dye says the Houston metro accounts for a quarter of all jobs in Texas.** His *assessment*: “almost all economic metrics for Houston are still showing signs of stress.” His *prognosis*: “We expect Houston to struggle with weak net job growth through the remainder of this year.”

Okay, so you think Austin drivers are bad. (Of course, traffic congestion will tax even the best drivers.) But just look down the road a bit. According to a personal injury attorney's research, "Houston, you have a problem" when it comes to the most dangerous intersections in Texas. Houstonians may, in fact, be the state's worst drivers. Look at the numbers.

Texas Monthly reports Houston attorney **Brian White examined TxDOT crash data from 2013 through 2015 and came up with a list of the 279 most dangerous intersections in Texas.** In order to make his list, each crossroad was the scene of 40 or more crashes. And one Houston roadway was especially bad.

No fewer than 19 of the top 50 most dangerous intersections (including the #1, #2 and #3 worst intersections) in Texas involve – are you ready for it? – **the Sam Houston Parkway, also known as Beltway 8.** The numbers are staggering. When you add 'em up, **"nineteen Beltway 8 intersections racked up 2,700 accidents and 2,000 injuries, including five deaths,"** reported *Texas Monthly*.

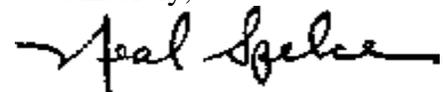
In fact, ten intersections along the western portion of Houston's Beltway 8 made the top 50. **This is roughly four more than the list for the entire Dallas-Fort Worth Metroplex.** Can you say "avoid Beltway 8 in Houston!" As if this is not enough, another report gives Houston the dubious distinction of the **most dangerous city in America for red light running.** You thought Austin was bad.

By the way, Loop 1604 in San Antonio also lands in the top 10. Its intersections with IH10 at Braun and Bandera were the scene of 650 crashes, roughly 370 injuries, and one death.

There's nothing from the Austin area until #39 – Cedar Park's 183A/Ed Whitestone intersection. But, by another measure, **Austin lived up to its "party" image and came in #3 in the number of alcohol-related crashes.**

Dr. Louis Overholster points out some things are better left unsaid but he says them anyway!

Sincerely,



Editor/Publisher