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Dear Client:

**In response to our story last week about Austin's exceptional economic transformation, the founder of Austin Ventures (AV) makes a strong case that his company's unique role has been a key driver of Austin's economic success. Surprising. Most Austinites are unaware of its history because AV has largely avoided publicity since its founding in the early 1980s.**

Recognizing "there have been multiple legs driving Austin's growth over the last 35 years," **Ken DeAngelis**, a Founder of Austin Ventures, revealed his company's surprising impact on Austin's economy to us this week. **"Surprising" is a good word**, because AV has followed a decades-long policy that "the best press is no press," but **"impressive" and "phenomenal" may be better descriptions**. Consider this important track record, in no particular order.

**"We've invested roughly \$2.1 billion in 208 Austin companies since 1984,"** DeAngelis pointed out. "Think about that. Our capital probably attracted another \$2B from East and West coast investors who wanted to participate in our deals." **He added this has created "billions in market cap and hundreds of thousands of jobs."**

How can these numbers soar to such heights? DeAngelis says AV's investments have expanded exponentially. **He says around 20 companies resulted from AV's original investment in Tivoli Systems.** Tivoli is just the tip of the iceberg.

DeAngelis says there have also been numerous spinoffs from other AV investments, citing HomeAway, Bazaar Voice, etc. **"The point is," he says, "these folks are serial entrepreneurs, and they keep creating. We've backed multiple CEOs two and three times."**

**How does AV's track record of pouring money into Austin companies compare with other investment capital operations?** "I don't think there's a local firm that has invested more than \$100 mm in Austin companies, maybe \$150 mm," DeAngelis notes. "But you get the point, **we've invested 15-20 times more than anyone else."**

Why is this important now? As we reported last week, a Kauffman Foundation study of Austin's high-tech development since the 1980s is underway. It should certainly include the enormous impact **of Austin Venture's investments on Austin's economic growth.**

**Okay, so what's the impact of entrepreneurial activity on Austin's economy now? Right now. What are the stats? Are start-ups getting more than their share of attention? After all, giants like Dell, Apple, Google, IBM, UT Austin, etc. are major drivers of the economy. So, are start-ups really an important part of the Austin economy? Or are they the product of someone's get-rich quick dreams? Let's examine the numbers.**

Make no mistake, as far as quantity is concerned, **start-ups are an important part of Austin's economy** (unlike decades ago, when state jobs dominated just about all stats). C'mon, get to it. Give us a perspective. Okay, how about this: **Start-ups account for a larger share of businesses in Austin than in nearly all major US metros**, according to an analysis of several data sources, including the USCensus Bureau, by the Chamber's VP/Research **Beverly Kerr**.

Having established this, who are the folks involved in Austin's *New Economy*? **"Young firms account for a larger share of businesses in Austin than in nearly all other major US metros,"** Kerr reported. **"Of the 34,771 firms in Austin in 2014 with paid employees, 11.7% have been in business less than two years, 27.0% less than four years, and 38.9% less than four years."**

This bears watching. While we can't cite exact percentages, **the failure rate of start-ups in the early years is quite heavy**. And Austin ranks #2 in the US for firms in business less than two years. Sure, this is robust business activity – but if past history is an indicator, it is something to track for the next few years.

Other interesting breakdowns give you an idea of who is involved in these Austin entrepreneurial activities: **women-owned firms represent more than 20%** ... minority entrepreneurs make up 17% ... and **Hispanics (8%) and Asians (7%) make up the biggest percentages** of minority employer firms. By the way, **veterans are owners of about 9% of Austin employer firms**.

**What about the overall economy – not just the start-ups? Austin is doing quite well, thank you. Austin just wrapped up 44 consecutive months of 4+% nonfarm job growth. No other major metro in the country has come close to this record. (But it is slowing a bit now.)**

Civic Analytics' **Brian Kelsey** said real personal income in the Austin metro grew 22.5% during 2010-2014, ranking #3 in the US. **"That's quite a bit of fuel for our housing market and increasingly pricey foodie scene,"** said Kelsey. Also he says Austin's tech sector continues to lead nationally, with total employment growing 31% during 2010-2015.

Kelsey's analysis led him to observe that "Austin is attracting and retaining so many well-educated and highly-paid people we almost have to **stop measuring in terms of bachelor's degrees and start counting advanced degrees.**" See the next item for concerns he raises.

**Austin shouldn't break its arm patting itself on its back. There are still key concerns, or as Civic Analytics Brian Kelsey calls it, "challenges," facing this area. One: "trying to tackle big-city/regional issues with a small-city/local toolkit and, at times, mindset." Really? Even with Austin's mayor talking about big actions? Yep. Here's how Kelsey phrases it.**

Kelsey cites a \$6 billion transit plan in Nashville and a multi-billion investment in Denver approved by voters in eight counties. Referring to the Capital Area Metropolitan Planning Organization's (CAMPO) internal squabbling over relative power among its member organizations, Kelsey said **"we are squabbling about seats on our Metropolitan Planning Organization and protesting \$720 million in relatively small-scale (mobility) upgrades – in one city (Austin)."**

Another challenge Kelsey zeroes in on: **"When will housing costs in the urban core start to erode Austin's competitive advantage relative to the expensive coastal markets?"** He continued: "Affordability – relative to pricey markets with comparable economies – has long been one of Austin's key selling points."

He admitted "there is still a considerable gap relative to California." Then Kelsey laid out this question: **"Are we approaching a point on the curve where some people will opt for smaller markets with growing tech centers in North Carolina, Tennessee or Utah?"**

Finally, he points out income versus housing costs are "exceeding what is considered affordable for the housing budgets of Hispanic or Latino or Black families with median family income. This is," he added, **"how you become one of the most economically segregated places in the country."**

**As if to underscore the Austin residential real estate affordability situation, the *Dallas Morning News* reported this week that Austin is one of six economically-vibrant markets across the nation where incomes are not keeping pace with rising home prices – putting the city near the top of a dubious list.**

According to a new report from Nationwide Insurance, three Texas cities are among the Top Six in the nation where incomes are not keeping pace with rising home prices. **Austin, Dallas and Houston are joined by Denver, San Francisco and San Jose** on this ranking.

This was not just a spot check. The *Dallas News* reported Nationwide gauged **housing conditions in 400 cities across the country** for its midyear report. Soaring home prices in these cities have outstripped income growth. These cities are thriving economically. **It's the "balance" that is out of whack.** Incidentally, three other Texas cities – Midland, Odessa and Victoria – rated poorly, because the oil price decline is hurting their overall economy.

**After suffering through recent years of drought conditions, the Austin area – and Texas overall – is getting some good news as summer comes to an end. After the wettest August in Texas in more than 100 years, and an unusually dry September, less than 1% of the state remains in drought. (It was 27% just a year ago.)**

This is a significant milestone in this sometimes weather-tormented area. Yeah, but. When can we expect the next milestone – no drought conditions at all in this huge state? Glad you asked. **The US Seasonal Drought Outlook anticipates drought status will totally disappear from Texas by the end of the year.** To give you an idea of how this compares, almost all of California and the eastern part of Oregon are still in the throes of drought conditions that also plague large parts of the southeastern and northeastern US.

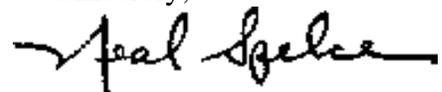
**It seems out of character for a hoity-toity lifestyle magazine such as *Bon Appetit* to stoop to reviewing highway rest stops. But it did. And, this national publication declared the best rest stop in the country is – are you ready for it? – Buc-ee's. Yep, the Texas rest stop chain that uses a happy-faced Beaver for its logo is the nation's best rest stop according to the magazine noted for its special wine and elegant food reviews.**

*Bon Appetit* called Buc-ee's an "icon" that has "set a new bar for the kind of service and offerings than an off-the-highway joint can provide." *Texas Monthly* noted the "**big factor in Buc-ee's number one ranking was its superior food** – *Bon Appetit* drooled over the rest stop's selection of snacks, **everything from 'beaver nuggets' to brisket tacos.**" You read that right. And Buc-ee's also received the mag's praise for its famously large, very clean restrooms.

*Bon Appetit's* writer gushed: "Buc-ee's is special for all the ways in which it embodies the Lone Star State culture – **insanely big, wildly accommodating, and unabashedly friendly.**"

**Dr. Louis Overholster**, when he read this food/wine magazine story, remembered what baseball great Yogi Berra said about a popular restaurant: "Nobody goes there anymore. It's too crowded!"

Sincerely,



Editor/Publisher