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Dear Client:

**With oil prices still less than half of their recent peak, some Texas-watchers are cautious in predicting the state's economic future. They remember the 1980s. That was when oil prices plunged and real estate's bubble burst. The double-whammy caused Texas' 425 commercial banks that had huge oil and real estate loan portfolios to fail. In fact, nine of the ten largest Texas bank holding companies were also hammered. What about today? We need to tell those cautious Texas-watchers, there is a big difference.**

The big difference: this is not the 1980s. Back then, “essentially it was a one-two punch,” noted longtime Texas economist **Ray Perryman** this week. “The economy was dominated by oil and so were loan portfolios. **Some leveling off of crude oil prices early in the decade led financial institutions to continue to pour money into real estate**, despite the fact vacancies were growing. **(At one point in Houston, about one out of every six houses was vacant.)**” This wasn't all. The boom and bust of the 1980s were more complex than this. In fact Perryman wrote an entire book about it.

What is different now? “We learned a one-dimensional economy was a very bad thing,” Perryman said, stating the obvious. So, what's the story today? **“Technology and advanced industries, biosciences and research, and other emerging industries are part of the story,”** Perryman continued. **“Stability and growth in cornerstone industries like higher education and health care is also a contributing factor.”**

Yeah, Ray, but what about oil? “The oil surge was definitely part of the reason for the strong economic performance of a few years ago, but the fact remains that **the state is doing well even without that boost.**” He did raise a small caution flag. **“There could be additional fallout from strained energy companies if prices stay low for an extended period of time, but I don't think it will be a major problem across the economy.”**

In fact, Perryman sees a positive signal this week: **“oil prices are staying generally high enough to make certain types of wells economically sound** (particularly in the Permian Basin) and we've seen some increase in activity.”

Perryman sums up: “this time around, we lost some momentum when crude oil prices tumbled, but **expansion in other industries has contributed to resilience and growth continues.**”

**Think *housing* costs are outta sight in Austin? Check downtown Austin *office* space. It's called "one of the most expensive markets in the country for leasing in any of a dozen trophy office buildings." How does that compare to the really big cities? Hang on! The cost to lease in Austin's premium high-rise properties now surpasses comparable space in major markets such as Chicago, Seattle, Los Angeles and Miami. See what we mean.**

Jones Lang LaSalle (JLL) issued its national "Skyline Report" analysis that includes Trophy buildings with more than 250,000 sf. **The 12 high-rise office buildings in downtown Austin represent more than 5.3 million square feet of existing and under-construction office space.** Which buildings are included? Here's the JLL list, all at least 20 stories tall, with occupancy rates in parenthesis:

**100 Congress (95.1%) ... 300 West Sixth (99.7%) ... 301 Congress (96.7%) ...  
816 Congress (97.5%) ... Austin Centre (93.8%)... Chase Tower (95.2%) ...  
Colorado Tower (100%) ... Frost Bank Tower (98.6%) ... One American  
Center (97.4%) ... One Eleven (93.0%) ... San Jacinto Center (100%) ...  
500 West Second (still under construction, but 42.0% is pre-leased to Google).**

Even at a lofty direct *average* asking rent of \$53.67 per square foot, you can look at the percentage lease rates above and immediately tell **this is a very landlord-favorable market.** (Obviously, we haven't heard any discussion about an "overbuilt" market experienced in the 1980s.)

How has this changed? Well, in 2010 Skyline *vacancy* hovered at 17.4%. And construction has been ongoing since then. Even with that activity, **JLL reports *vacancy* has now decreased to approximately 4.3%.** Talk about a tight downtown premium office market.

What about the immediate future for downtown office high-rises? Currently ranked as the seventh most expensive skyline market in the US, JLL reports **"Austin should continue to be a landlord-driven market through 2016 and into 2017."**

**Another separate study of overall office space delivered an interesting comparison of Austin, Dallas and Houston (Texas metros as different as night and day). CBRE took an entirely different tack, using different data sets, from the above JLL study. Still interesting, though.**

**Dallas has more available office space** than Houston (even though it has been hit by energy problems) and Austin. **Energy companies still account for 40% of Houston office tenants. In Austin last year, tech companies accounted for 80%** of the 119 relocations or expansions. **Class A office space makes up about 60% of the offices in Austin,** but only about 54% of the product in Houston and the Dallas area. Different city dynamics – but all Texas.

**Entering the 4<sup>th</sup> quarter this year, higher education advocates – especially UTAustin devotees – are looking to the 1<sup>st</sup> quarter next year. This is when the push-pull over priorities becomes public. The forum: the 85<sup>th</sup> session of the Texas Legislature meeting in Austin for 140 days starting January 10, 2017. The prognosis: it’s a new “day,” but what kind of day?**

Past controversies involved the UTSystem regents, Governor **Rick Perry** and his supporters. They felt universities put **too much emphasis on research at the expense of teaching**. This is an oversimplification, but it was at the core of appropriations, tuition, etc. Now, some are saying it’s a new day. The regents are changing and Governor **Greg Abbott** has a differing view of higher education. But has this changed the gist of the approach?

Not necessarily, argues powerful activist UTAustin alum, Fort Worth attorney **Gordon Appleman**. Yes, he acknowledges Perry is gone, new appointees have altered the view of the Board of Regents, and Abbott (a UTAustin grad) has a more supportive approach for the role of higher education. But, **he points to a very powerful politician as someone to watch with concern**.

Many have long maintained the most powerful elective office in Texas is Lieutenant Governor, especially as the **LtGov controls just about everything the State Senate does – and importantly, does not do – when the Legislature is in session**. The current LtGov is **Dan Patrick**, whom Appleman says advocates many of the same past Regents’/Perry’s policies.

So, Appleman is sounding the alarm: “All that has happened is that the **venue has shifted from the UTSystem Board of Regents to the Texas Legislature and from the Governor to the Lieutenant Governor**,” Appleman observed. He notes Patrick has been quoted as favoring “**placing greater restrictions on what university research dollars can be spent on**.”

An example Appleman uses is this Patrick quote, that Appleman calls “juvenile:” “I don’t want to pay an English professor with research dollars, and give them half a semester off, to **write a book about the love life of William Shakespeare that no one cares about and no one is going to read**.”

The November election is not expected to change the makeup of the State Senate. **Along with rules changes, Republican Patrick will continue to have a large majority of GOP Senators to support his efforts**. University advocates point out that while Patrick’s possible push in the Senate is important, it is just one-third of the process that affects legislation. The more moderate GOP Speaker of the House and GOP Governor (already outspoken in his support of the role of higher education) also wield their own brand of influence.

But, if Appleman’s concerns are realistic, then the stage is set for a state struggle that may run until next Memorial Day. **This is not just an “academic” battle. A dynamic and thriving UTAustin is essential for the future strength of Austin’s economy**. Stay tuned.

**Effective this week, almost 3,000 Austin businesses have been brought under a City of Austin ordinance. If the businesses fail to comply, they could face fines up to \$2,000 per day, per violation. This is Austin's Universal Recycling and Organics Ordinance designed to assure Austin reaches Zero Waste by 2040. Its reach is quite widespread. Here's what we mean.**

Newly-affected properties in this next phase include: **retail stores, malls, hotels and motels, apartment complexes, condominium communities, industrial facilities, restaurants, bars, grocery stores and conference centers larger than 5,000 square feet.** So what is required?

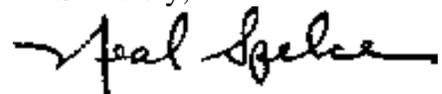
All affected properties are required to **post signs ... provide recycling education to tenants and/or employees ... and submit an online Annual Diversion Plan** ([www.austintexas.gov/diversionplan](http://www.austintexas.gov/diversionplan)) **by February 1, 2017.** Also about 200 food service establishments (15,000 square feet or larger) **now must establish programs to divert food waste away from landfills.** Also, by February 1, 2017 they must submit an Organic Diversion Plan ([www.austintexas.gov/bizorganics](http://www.austintexas.gov/bizorganics)).

The city department, Austin Resource Recovery, is offering free compliance training for these ordinances during October. Go to [www.AustinTexas.gov/URO](http://www.AustinTexas.gov/URO) for details on this complicated ordinance. **(Remember the hefty fines mentioned above!)** All this got its start in December 2011 when it was approved by the Austin City Council. Phase two kicks in this week. Another phase a year from now.

**A new twist on an old Internet scam is making the rounds. The new twist names a supposed relative of yours (using your last name). A "private lawyer" is sending the email saying your "relative" and his family died in a car crash in West Africa. By the way, your relative had in the bank \$11,400,000. All you need to do is send a whole bunch of personal info. Yeah, right.**

**Dr. Louis Overholster**, checking the weather, couldn't believe his ears when he heard a weather caster say "tomorrow's forecast is for bright and sunny with an 80% chance that I'm wrong!"

Sincerely,



Editor/Publisher