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Dear Client:

“Affordability” is an important word tossed around a lot these days in the Austin area – especially as it relates to the cost to buy or rent residences. But *price* is only one part of the equation. The *ability to pay* is the other element to determine whether it is affordable. And a recent report shows personal income growth in Texas has exceeded housing price growth over time. Red flag: this trend is currently reversing.

The overall trend for growth in personal income greater than housing price growth has been the norm in Texas for a long time -- in fact, from 1975 to 2015, according to two real estate research economists at the TexasA&M Real Estate Center. This is impressive. But, according to the researchers, **housing prices have *increased* faster than personal income growth since that time.** The causes?

First of all, it’s a story we know all too well in the Austin area. The number of new homes coming online has been limited due to the “shortage of construction workers and the scarcity of developed lots” write the researchers. “This has made it difficult to satisfy demand for homes, which **pushed prices higher.**” **The outlook: “This trend will likely continue unless the supply shortages in Texas markets are mitigated,”** they predict.

The likely outcome: “If housing prices continue to appreciate ahead of income growth as trends suggest,” they point out, **“the comparative advantage of greater housing affordability Texas has gained over the US may narrow or even disappear in the foreseeable future.”**

The researchers, **Wayne Day** and **Luis B. Torres**, are speaking about the state as a whole, not just Austin. However, when you dig deeper into their study, you find Austin is a shining example of what is happening. As they put it, **“Austin ... consistently outpaced income growth” since the late 1990s.** (Can you say “thank you high-paying tech jobs!”)

As for the other part of the equation, **Austin was near the top for housing price growth** in the state of Texas. Looking-ahead, the study states **Austin’s housing *price* growth is now exceeding *income* growth.** Obviously, this is not a good trend for the Austin economy. Affordability could get worse, unless something changes.

Something is changing in the Austin economy, but it is not as dire as one headline seems to suggest (“Is Austin’s Job Market Going From Hot To Not?”). “Cooling” is a better way to analyze it, especially when you realize it is still the envy of many cities all over the US. No question the job growth *rate* slowed during the past year. But jobs are still being created. So what does a longtime Austin demographer have to say about the situation?

We’ve quoted the demographer for the City of Austin, **Ryan Robinson**, in the past. But let’s use **John Egan**’s story in *Culture Map Austin* to lift some recent Robinson quotes.

Robinson likes to speak of what he calls the Austin differential. “This differential was probably at a peak around 2012 or 2013, when **Austin was really rocking along in terms of positive job growth, descending unemployment rates, and real estate appreciation** while much of the rest of the country was still mired in the depths of the Great Recession,” Robinson noted.

‘By mid-2016, however,’ he continued in Egan’s report, ‘**Austin’s advantages of lower cost of living and cheaper housing**, at least compared with places like San Francisco and Los Angeles, **were starting to diminish.**’

What about going forward? What are the prospects?

“**Austin’s economic future is still quite bright, but our shine – at least in relative terms – will be a little less intense, which I think is a good thing,**” Robinson said. “**I certainly do not want our job growth to go to zero, but we simply couldn’t continue to absorb annualized job growth bouncing between 4% and 4.5%.**”

Robinson said the **job slowdown “was bound to come**, but I think a lot of local observers are surprised at how rapidly we have downshifted.”

What does Robinson think a “perfect” rate of job growth for Austin would be? He told Egan he feels **job growth should be a steady 2.5%**. So where do we stand now? Numbers vary depending upon the snapshot in time when they are gauged, but Austin economic development expert **Angelos Angelou feels Austin is still growing at around 3% per year.**

Job growth needs to be considered alongside *unemployment* stats. **If unemployment is low – and this is generally regarded as a good thing – it creates a tight labor market, making hiring tough for businesses.** The Austin area’s unemployment has hovered around a very low 3% ... among the best in the state and nation. It’s a delicate balancing act, taking place as new people move to Austin daily. **Meanwhile, not enough homes are available to meet the demand, and prices are being pushed upward as a result.** The Austin area economy is cooling. But the trend, while slowing, has not turned around.

Two Texas Democratic Congressmen are making noises about challenging GOP US Senator Ted Cruz, who will be seeking re-election to his 2nd 6-year term next year. The two Democrats, US Reps El Paso's Beto O'Rourke and San Antonio's Joaquin Castro, will face an uphill battle on at least two fronts.

First of all, O'Rourke and Castro will have to give up two "safe" Congressional seats in order to challenge Cruz. Secondly, no Democrat has been elected to statewide office in Texas for decades. And while it is yet to be determined, they will likely have less campaign money than Cruz. **They have not made a final decision to enter the 2018 US Senate contest and others may still decide to challenge Cruz.** So this is still fluid on the Dem side of the ledger.

The GOP primary battle is also in a state of flux. As we reported in our 10.21.16 newsletter, **Austin's US Rep Michael McCaul (current chair of the US House Homeland Security Committee)** may be testing the waters for a possible challenge to Cruz though there has been no public announcement.

Back to the Dems political maneuvering. Nearly a dozen Democrats are scrambling to be head of their national party, with a Texan among them. **Jehmu Greene was raised in Austin**, has been a fixture on national TV as a commentator, and has been campaigning aggressively to become Chair of the Democratic National Committee (DNC). The DNC will select a chair (formerly held by **Debbie Wasserman Schultz**) at its meeting Feb. 23-26 in Atlanta.

Travis County's new "sanctuary" jailed-immigrant policy controversy is resonating nationwide, not just between the Austin area and Texas leaders. So, how is the national media approaching its coverage – especially the cable news networks?

As you know, the cable news nets interview people via satellite on daily news topics. Interestingly, here's who the cable nets interviewed here in Austin: **FOX** interviewed Trump backers/Republicans Gov **Greg Abbott** and LtGov **Dan Patrick**. **CNN** and **MSNBC** interviewed Hillary backer/Democrat Austin Mayor **Steve Adler**. Guess the tack each of the cable operators took with their interviewees?

Speaking of Sanctuary Cities, this is the week Travis County Sheriff Sally Hernandez's new policy of "less" cooperation with federal immigration law enforcement goes into effect. And, this is the week Gov Abbott declared an "emergency" on legislation to enforce (with penalties) the fed's immigration policies, as he withheld state funds." What does this mean?

It simply means you ain't seen nothing yet. Lines in the sand are being drawn. This topic will continue to make headlines for months.

It's well-documented that traditional print newspapers are struggling to adapt to the digital age of news dissemination. The shrinking *Austin American-Statesman* is a prime example of what is happening in the industry. But another Austin-based newspaper business is swimming against this national tide. And its success is impressive. We're talking about the weekly *Community Impact* newspapers.

Walk through the expansive *Statesman* facilities (that are up for sale, by the way) and empty spaces appear overwhelming. Yet ***Community Impact* recently built a new \$10 million facility in Pflugerville to print the company's 23 newspapers** for the Austin, Dallas and Houston metro areas. Even as the *Statesman* has outsourced the printing of its editions to San Antonio, ***Community Impact* is one of only four worldwide locations to install an expensive Goss Magnum Compact printing press.** Talk about swimming upstream.

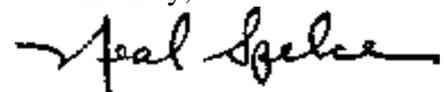
The national newspaper trade publication *Editor & Publisher* last week wrote about the company's success, owned by husband/wife team **John and Jennifer Garrett**. *E&P* pointed out ***Community Impact* has 180 people on staff, including 15 new employees** ("many of them former *Austin American-Statesman* workers") with plans to hire ten more next year.

John Garrett told *E&P* "what matters to advertisers is eyeballs. With our new printing equipment we can target at the household level. I call it a battle of the Coffee Table vs Mobile. I can't compete on the mobile platform (yet) – **but I can get inside that home with a quality and useful product ... sitting on their coffee table.**" And his product stands out. ***Community Impact* newspapers use color throughout**, unlike most newspapers that use color sparingly.

Garrett acknowledges the national shift to digital, but says it is just as expensive as print. **It'll be interesting to track this Austin company's "swimming against the tide" model.**

Reliance on print carries its risk, especially for unintended typos or meanings. **Dr. Louis Overholster** cites these two headlines that actually appeared in print: "Study Shows Frequent Sex Enhances Pregnancy Chances" and "Homicide Victims Rarely Talk To Police."

Sincerely,



Editor/Publisher