The NEAL SPELCE AUSTIN LETTER

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Dear Client:

The Austin area's labor force is one of its greatest economic assets. In fact, it became part of a promotional campaign when the phrase "human capital" was coined to reference Austin's enviable workforce. However, major changes are likely to occur over the next few years if the nation's demographics are an indicator -- a slowing growth rate and an older and more diverse labor force.

"The percentage of the population which is working will also continue to fall," said veteran Texas economist **Ray Perryman**. "**The implications for businesses, the economy, and society are profound. Population growth will slow. The labor force is projected to expand even slower.**"

One of the biggest factors according to Perryman is *participation*. He points out the Bureau of Labor Statistics predicts that, **by the late 2020**s, **only about 60% of Americans 16 and older will be part of the labor force, with the proportion dropping to only 57% by 2060**. Demographic patterns have a lot to do with this. "The baby boom generation has been a large share of the labor force, but is now aging beyond prime working years," noted Perryman, "**the oldest boomers began to reach retirement age several years ago**."

But, it's more than just an aging of the workforce. "**Young people (ages 16 to 24) are less likely to work than in the past**," Perryman said. And, "even among people in the **prime working age range of 25 to 54**, which has the strongest attachment to the labor market, the **labor force participation rate is falling**." He states there are numerous reasons for the decline. Years of slow hiring led some to drop out of the workforce, never to return. Skill mismatches between the unemployed and available jobs are another contributing factor.

As with most economists, Perryman can bury you with "facks and figgers." He also said social programs will be impacted. (Social Security anyone?) So, let's fast forward. After running the numbers, **he raises the very real question**: "**how will we get the work done**?" He tossed out a few possible solutions -- such as trying to entice more prime working-aged people back into the workforce. But then Perryman added "dropping labor force participation is likely going to be a fact of life for the foreseeable future. **Slower work force growth is coming. We're going to have to deal with (this) as a society**." Will Austin be immune?

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Now that the dust has settled at the Texas Legislature, when will Uber and Lyft be offering their ride-hailing services to the Austin area? Any minute now. In fact, as you read this, it could be happening. Hold on there. Don't most legislative bills take effect at the beginning of the state's next fiscal year, September 1, 2017? Here's a quick explanation why Uber and Lyft will be upsetting the local ride-hailing apple cart – and doing it ASAP.

Obviously, Governor **Greg Abbott** must sign any legislation before it becomes law, but he's eager to do so (if he hasn't signed it already). That's not a factor. **So, why will Texas be able to join 41 other states with comprehensive ride-hailing legislation -- *right away*?**

It has to do with the overwhelming margin of "yes" votes in both the Texas House and Senate. **If a measure receives the votes of more than two-thirds of Senators and Representatives, it goes into immediate effect upon signing by the governor**. If a measure gets only a simple one-vote margin of victory, and is signed by the governor, it does not go into effect until the next fiscal year.

The vote for passage of the statewide regulation of ride-hailing companies in the **Texas House was 100-35** – not much doubt there. In the **Senate**, it barely got the two-thirds vote that was initially announced as 20-10, but then it **was changed to an official 21-9 margin**. Two-thirds is a big hurdle. Not many pieces of major legislation meet that high bar.

It was a popular measure, and the fact **the City of Austin was out front *opposing* passage may have cemented support *for* the bill in the Republican-dominated legislature**. After the fact, Mayor **Steve Adler** and some Austin City Councilmembers criticized the passage of the measure. Said the mayor:

"I'm disappointed that the legislature chose to nullify the bedrock principles of self-governance and limited government by **imposing regulations on our city over the objection of Austin voters**."

He defended the city's actions saying "**our city should be proud of how we filled the gap created when Uber and Lyft left**."

Then he went on with a message for Uber and Lyft: "**We now must hope that they return ready to compete in a way that reflects Austin values**." Adler did not explain what he meant by this statement.

No wonder the mayor is upset. After all, he openly battled the legislative bill. This was after he led the fight to defeat Uber and Lyft in bitter election battle last year. But even more than that, it takes away city control over the proliferation of ride-hailing vehicles on city streets. Under the new bill, **ride-hailing companies will no longer be regulated by the City of Austin. They will answer now to the Texas Department of Licensing and Regulation**.

Good news and bad news on the Austin real estate front. The positive info relates to residential real estate. The not-so-good news involves industrial real estate. These are snapshots, but need to be viewed as you assess the health of the overall Austin economy.

The president of the Austin Board of Realtors issued a written statement after assessing April home sales (up 3+%) and median sales prices (2nd highest level ever). "**After a slow beginning to the year, increases in single-family home sales, homes on the market and housing inventory across the region in April indicate that the Central Texas housing market is ramping up for a strong summer selling season**," said **Brandy Guthrie**.

The outlook is not so rosy for industrial commercial real estate. Colliers International reported Austin's industrial real estate market took a big hit in the first quarter, posting negative net absorption. This is the largest loss since first quarter 2014. Colliers observed: "**The rapid increase in rental rates seen in the past three years has slowed, and vacancy rates are rising**." This has been, in large part, due to tenants moving out of large blocks of space.

When you consider Austin real estate, one factor that is always present and always has an impact is interest rates. They are now rising, and one respected analyst of real estate, Mark Sprague, says there could be "as many as three additional rate hikes this year."

Rising rates will likely contribute to affordability problems – already an issue in the central Austin area, pushing residents out to the adjacent suburbs in the metro. Add to increasing interest rates the **increased cost of construction materials** (lumber increased 20% last year, according to Sprague) and you have a **compounding impact on overall affordability**.

Analysts will tell you **that with every 1% rate rise, there is a 12% loss of buying power**. This is significant. Interest rates usually rise in small chunks, but several rate rises can keep many potential homebuyers out of the market.

Statewide, the outlook for the oil and gas industry is looking up – especially in West Texas. This is important for you, because oil/gas tax revenue is a large chunk of money that goes to fund state government agencies in Austin, and puts money into the state's savings account known as the Rainy Day Fund.

One of the three commissioners who oversee the state's oil and gas business, **Ryan Sitton, pinpointed the progress saying "right now, 40% of all US rigs are located in the Permian Basin**." He backed up that stat by noting oil prices are beginning to rise, and Texas production is reaching record highs. This has triggered historic new investments into the Midland-Odessa West Texas hotspot known as the Permian Basin.

How do you know Austin's newest, largest hotel will soon open downtown? Forget the comments about "construction moving right along." Take a look at how Fairmont Austin appears to be gearing up for business: it is now hiring operational personnel. This is a clear indicator the project (that broke ground in 2014) is looking at a fall opening.

Only the second Fairmont to be built in Texas, the luxury brand issued a news release saying it is **now hiring employees for its five – count them, five – restaurants and bars**. Located along the eastern edge of the Austin Convention Center, at Red River and East Cesar Chavez Streets, Fairmont Austin will be Austin's second tallest building.

Not just large by the Austin hotel scene's measurement with 1,048 rooms (it will slightly surpass the relatively new upper-end JWMarriott), Fairmont Austin is crowing **it is preparing "to deliver the largest hotel opening in Fairmont history to Austin."** One special feature: a pedestrian bridge it is calling "Canopy Walk" will connect the hotel to the convention center.

Speaking of "new to Austin," have you noticed the growing plethora of food trucks? In many locations, the trucks are clustered with non-competitive food offerings, so the increasing number of trucks may not be all that obvious. But *The Economist*, a respected publication, is reporting Austin's food truck growth numbers are – by far – the highest in the US.

The publication said **Austin's percentage increase in food trucks was 600%** for the period it examined. Others: San Francisco (500%) and Salt Lake City (400%). Yeah, but percentages can sometimes be deceiving if you start with low numbers. So, what about *actual* numbers of food trucks in Austin? Well, Austin *did* start relatively low – **fewer than one truck for more than 100,000 residents. But it now has more than four food trucks per 100,000 residents**, second only to Portland's almost five trucks. (Does anyone eat at home anymore?)

Speaking of food, **Dr. Louis Overholster** wonders why toasters always have a setting that burns toast to a horrible crisp, which no decent human being would eat!

Sincerely,

Neal Spelce

Editor/Publisher