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Dear Client:

Several dozen major metropolitan areas – including Austin and at least four other Texas metros -- have less than a month to get their act together to bid on what may be the biggest ever single economic development prize. Amazon’s HQ2, the \$5 billion investment that will ultimately create 50,000 new jobs for its second headquarters location, has set an October 19, 2017 deadline for proposals. Some speculators have written off Austin, while others have said it’s a slam dunk for Austin to be the chosen HQ2 site. What’s likely to happen?

Amazon has set a high bar in its qualifications for sites to make the cut. Unlike most other site selection processes that are secretive for competitive reasons, **Amazon has released its criteria for all the world to see.** This has led to rampant predictions about the ultimate site selection decision. To boil it down, let’s analyze the process Amazon is likely to employ.

Start with the naysayers. The one that’s getting the widest distribution is *The New York Times’* prediction Denver will beat out Austin. And, while Austin scored high in other criteria, **the one factor that led the NYT to eliminate Austin was what you would expect: traffic congestion and direct access to mass transit.**

But, in practically all other categories, Austin ranks at or near the top when you analyze Amazon’s eight pages of guidance. Obviously, we can’t list them all here. But here are a few: stable business climate for growth ... **strong job growth ... able to attract top technical talent ...** sites to expand to 8 million square feet (the Pentagon, for comparison, has 6.6 million sq.ft) ... **high quality of life ...** etc. Click on our 9.8.17 edition in our Archives for a more complete list.

So how does Austin overcome the traffic/transit deficiency? **Amazon HQ2 will likely use a matrix spreadsheet to compare proposals -- ranking each of the criteria from 1 to 10.** Sure Austin may fall short (as other metros also will) in the traffic/transit category. But a top ranking in other categories, *when totaled at the end*, could inure to Austin’s benefit.

This is where Amazon HQ2’s admonition “**to encourage cities to think big and be creative**” come in. Hark back when Austin shocked the world to trigger its tech revolution by beating out 57 cities for MCC. Because Austin had few non-stop airplane connections to major destinations (unlike today), Austin made a Lear jet available at no cost to MCC. “**Big and creative**” **must be Austin’s guidance.** Check the next item for other “edges” for Austin.

Austin will not be going it alone in its quest to land megaprospect Amazon's 2nd headquarters site location. The State of Texas, under Gov Greg Abbott's leadership, has indicated it will be "all in" in what will be a mammoth bidding war. Dallas, Fort Worth, Houston, San Antonio and the El Paso Borderplex (includes Juarez and Las Cruces) are also pitching for Amazon HQ2. State support will coalesce behind whichever Texas area makes the cut. There's also an intangible at play here – the relationship with Amazon's founder/CEO, billionaire Jeff Bezos.

You already know Seattle-based Amazon made a big splash when it recently acquired Austin-based **Whole Foods** grocery store operation. **And, San Marcos is up and running with an Amazon order fulfillment center.** In fact, Amazon has fulfillment centers in Houston, San Antonio, Dallas, Haslet, Coppell, Fort Worth, Irving and Schertz. Amazon also has a giant wind farm project planned for Scurry County, between Abilene and Lubbock.

According to the *Dallas Morning News* **Amazon already employs 20,000 Texans.** Obviously, the company is well aware of the business-friendly aspects of the Lone Star State, including no personal income tax. What is *not* widely-known is Bezos's personal connections to Texas.

"Bezos's personal roots in the Lone Star State run deep," reports *Texas Monthly*. "When he was younger, **he'd spend summers on his grandparents's ranch in Cotulla,** where he'd help out with branding, vaccinating and castrating cattle." He spent ten summers there.

"Bezos moved from his native New Mexico as a toddler, and he spent his early schooling years in the Bayou City, attending River Oaks Elementary School and graduating in 1976 before moving to Florida as a sixth grader. He's even cousins with George Strait," *TM* reported.

Speaking of relatives, the *Fort Worth Star Telegram* said his sister lived in the Fort Worth area in the late 1990s, and **"during his visits to her he'd always stop at the same restaurant to buy salsa."**

Bloomberg reported several senior execs are pushing for Boston, but lower-rung employees (they refer to them as "associates") prefer Texas. Here's how *Bloomberg* reported it: **"Picking Boston would disappoint many Amazon employees with families hoping for a more suburban location like Austin, Texas, that offers affordable housing options beyond apartments and condominiums. What's more, Austin is home to Whole Foods, recently acquired by Amazon for \$13.7 billion. Texas is absolutely the best choice from the perspective of associates."** FYI, more than 100 US cities are expected to compete.

It's obvious the competition will be fierce – from in-state and out-of-state. If past history is an indication, and if Austin is the sole Texas city selected as a finalist, it's likely the **full weight of the state, and other Texas cities, will be brought to bear to back Austin's bid.**

Can it be? Are we seeing the first signs of the Austin area's sizzling housing market cooling down to a slow simmer? When you look at the overall market, it may not be all that visible. For instance, the Austin Board of Realtors (ABoR) reported this week median sales prices in August were up -- still higher over the same month a year ago. But if you dig deeper into the numbers, you see cooler indicators in certain areas of the metro.

The Austin area population continues to increase. But in this widespread 5-county metro area, there are **suburban pockets whose available homes are different by a factor of *double* from others**. In other words, in certain areas the **demand is so great homes are sold almost as soon as they are listed**. In other suburbs, **homes linger much longer on the market before they are sold**. Let's examine the hot/*less-hot* areas.

Notice we did not say hot/*cold* in the previous sentence. **The overall housing market is still very vibrant**. Let's take housing inventory as a marker. "Inventory" is the economic term to identify **how long it takes to sell a home at the current pace of sales once a home becomes available**. A low inventory means it is a seller's market and usually drives up prices. Conversely a higher inventory means lesser demand and leans toward favoring the buyer. **Economists agree that six months is equilibrium – not favoring either buyer or seller.**

The hot spots in the Austin metro during August? **Hutto** (1.5 months) ... **Round Rock** (2 months) and **Manor** (2.2 months). A seller in those areas could easily get quick, multiple offers – probably above the asking price.

However, there are certain suburbs in the Austin metro where **homes are staying on the market for twice as long** before a sale is consummated as those listed above. In August, the inventory of homes for sale in **Lakeway** (4.4 months) ... **Leander** (4.3 months) and **San Marcos** (3.8 months). Quite a discrepancy when you look at the suburbs in the previous paragraph.

But let's keep this in perspective. **Four months inventory is still a "hot" market, especially when you consider equilibrium is six months**. In fact, across the entire Austin area the average time a home stayed on market before selling was 46 days – and that hasn't changed much recently. So, this isn't something about which we need to sound an alarm.

However it does bear watching as you try to assess what is happening now as it *might* affect future trends. Especially in certain suburbs. *Watching* is the word. Just being aware.

Speaking of the Austin Board of Realtors (ABoR), a simmering internal Realtor community squabble vaulted into the public arena this week with a lawsuit filed by two megaRealtor members against ABoR. Cord Shiflet and Brian Talley are accusing ABoR of violating its own bylaws. One underlying issue: a possible merger with the San Antonio Board.

With the US Congress working on a 6-month deadline for immigration action, what does this mean for workers in Texas? The immigrants falling under the Deferred Action for Childhood Arrivals (DACA) are sometimes called Dreamers. And 124,300 of these live in Texas. They are legal now, but their work visas will expire March 5, 2018. What then? Texas economist Ray Perryman brings this national debate close to home.

Dreamers are individuals who entered the US as children and have been allowed to remain for school or work. If Congress fails to act by the expiration date of their visas, they will be subject to deportation. As it now stands, the DACA solution is being discussed as **part of a larger immigration debate, including what to do with undocumented workers.**

About this larger picture, Perryman said “our analysis indicates there are **more than 250,000 undocumented construction workers in Texas**, with roughly one-third of them in the Houston area. Many of these workers are highly skilled; they represent about **30% of the state’s construction labor force, with no replacements readily available.**”

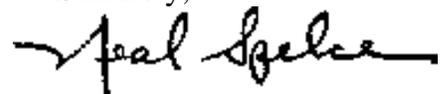
You can see where he is going with this. “Given that construction crews travel to needed areas, Houston and the Gulf Coast could **easily face a shortage of 100,000 – 150,000 or more workers for the efforts to rebuild homes, businesses and infrastructure,**” said Perryman. He’s referring to Hurricane Harvey’s damage.

“As fears of deportation rise, it becomes increasingly difficult to access this critical resource,” Perryman stated. “**The DACA decision heightens this anxiety and complicates the recovery.**”

It will be interesting to see how this **economic factor impacts the votes of the Texas Congressional delegation** during the upcoming highly-charged immigration debate.

Dr. Louis Overholster says he’d like to see this notice on the reader board at the Austin Convention Center: “Procrastinators Conference Postponed.”

Sincerely,



Editor/Publisher