



Volume 40, Number 23

September 7, 2018

Dear Client:

For a year now, the Austin area has been considered one of the favored locations for Amazon's 50,000-person second headquarters, Amazon HQ2. Still no public word on when Amazon will announce its next step. A \$5 billion investment in the HQ2 city, spread over 10-20 years, has many cities salivating. In fact, it has been said a "prosperity bomb" will be dropped on the ultimate HQ2 city. How can the Austin area prepare for such an event?

Austin's proposal has not been made public, but several cities have revealed proposals that have incentives valued up to a billion dollars. **Hey, they probably figure, if we invest a billion dollars for a \$5 billion return—it's worth it.** Don't know if this was their logic.

But it emphatically emphasizes the humongous aspect of Amazon HQ2. **Amazon estimates it generated \$38 billion in economic activity in its home base of Seattle between 2010 and 2016.** Okay, so HQ2 will be big. Really big.

Washington, DC-based think tank Brookings Institution in a new study examined how the **city that wins Amazon HQ2 could ensure its arrival does not rapidly drive up housing costs** – an important element in the Austin area economy.

Brooking's **Joseph Parilla** said this "should include not only stimulating new market-rate development through zoning, but also **setting aside some of the tax revenue generated by Amazon to fund and preserve affordable housing.**"

Other than housing, Parilla said Amazon should invest in local business initiatives, such as a startup accelerator and should **source services and goods from resident suppliers.** And, the new HQ2 city should **prepare existing residents to take advantage of employment opportunities created by Amazon.** In other words, the "diversity of the entire region" should be brought into play in business planning around Amazon.

Back to housing for a moment. **In Amazon's HQ1 city, Seattle, the cost of housing has outpaced wage gains.** While the income of families at the 20th percentile of the earnings distribution grew by 14% between 2014 and 2016, rents increased at 19%, according to Zillow. Sound familiar? **If Austin is selected for HQ2, Amazon will be on familiar territory and should work with Austin to alter such an imbalance.**

While Amazon is taking its time to make a momentous decision where to locate its mirror-image second headquarters, other top tech-related companies are investing in the Austin area. It seems as if there is some sort of announcement every week. As an example, the *Austin American-Statesman* late this week reported Facebook is leasing all of a still-under-construction 17-story office building in the Domain in North Austin.

This will be an expansion of Facebook's commitment in Austin that already employs about 700 people in downtown and has a substantial presence in another Domain office building. **But, Facebook's move is just the most recent manifestation of what is happening in this red-hot, booming market.**

Indeed, the home-grown and rapidly-growing job search firm, last year committed to leasing all of another Domain office building, a still-under-construction 11-story building. This is not all. Indeed will lease the top 10 floors of an office tower under construction at Sixth & Colorado downtown. Indeed is talking about hiring 3,000 people over the next few years.

Apple took over another large office building before construction was completed on Loop 360, adjacent to Hotel Granduca. Oh yeah, Oracle. **Oracle built-out a large campus facility** just south of Lady Bird Lake in Southeast Austin, near IH35.

And Google? Been here for more than ten years and **Google is still expanding its workforce, primarily in its downtown office digs.** (Google this year was the first company to reach a trillion-dollar valuation. It was soon followed in recent weeks by Amazon.)

Even grocer H-E-B, a company you don't think of as in the tech workspace, this week announced it was converting a building at 2416 East Sixth Street into a world-class tech facility. **Yep, the San Antonio-headquartered grocery company is coming to Austin and hiring several hundred people to "develop the ultimate digital experience for our customers."**

This is not meant to be a complete list of activity by tech-oriented companies in Austin. After all, we haven't even mentioned Dell Inc, the homegrown tech success recognized worldwide. **It is intended to be illustrative of the attractiveness of the Austin area's assets.**

Worried about rising Austin area housing costs – especially rents? Be thankful you don't live in the West Texas boom towns of Midland and Odessa. The two cities, which primarily serve the oil and gas industry in the energy-rich Permian Basin, had the largest year-over-year rent increases in the nation, reports the *Midland Reporter Telegram*. Midland's rent in August increased 31.9% over the previous year, while rent in Odessa increased 30%.

Quick quiz. Raise your hand if you've seen any signs around the Austin area touting USSenator Ted Cruz's re-election campaign. Okay, then. Raise your hand if you've seen countless USCongressman Beto O'Rourke's signs for his campaign to unseat Cruz. Thought so. The discrepancy can be attributed primarily to the fact that left-leaning Travis County did not vote for staunchly conservative Cruz in his first race. But more than that, Cruz himself admits he's in an unexpectedly tough race.

It's interesting that a relatively-obscure Congressman from El Paso could move into this position. After all, El Paso is at one of the most distant points in Texas. Some have joked it should be part of New Mexico. **The Democrat had almost no name recognition outside his home district.** And it's been decades, since a Democrat won a significant statewide race in Texas. **So how did O'Rourke get to this point just two months before the election?**

First of all, he has a somewhat **charismatic presence.** He put this personal quality to good use as he **campaigning in all 254 counties in Texas.** **He makes a good stump speech** and appears to like "pressing the flesh" as he makes appearances. As a result, **he energizes his supporters.** They, in turn, put out yard signs, make phone calls and do the basic campaign volunteer work.

O'Rourke has gained national notoriety. He is riding the "Blue Wave" of motivated anti-Trump Democrats. **He has raised more money that Cruz up to this point.** And some Democrats have speculated, whether he wins or loses, O'Rourke has emerged as a politician with a future in in their political party.

The candidates are roughly the same age – Cruz is 47, O'Rourke is 45. But they are starkly dissimilar in their political philosophies. Cruz is staunchly conservative; O'Rourke is just as staunchly liberal. Their positions on key issues will likely be explored in detail as the campaigning heats up. And, their ads should clearly define their differences.

While Cruz is behind in fund-raising as of the last official reports, don't feel sorry for the Senator. **You can anticipate he will have the big bucks – as much as he needs – to mount a strong campaign.** In fact, conservative organizations are already loosening up their purse strings for Cruz.

It's been six years since Cruz was elected to the Senate. Those with long memories will recall he was underestimated *then.* **Cruz now is a household political name for his high-profile roles, including an unsuccessful run for president.** He has since patched up his differences with President Trump, so much so, Trump is planning one of his patented huge rallies in Texas on Cruz's behalf.

How will this important contest play out? Look for a lotta ads, most of them slamming the opponent. **It will be an upset of major proportions if Texas elects the Democrat.** A lot is at stake – for Texas, and for the two national political parties.

While talking current politics, let's take a look back at a story of how a Texas Senator was defeated by political campaign contributions – and how it ultimately turned out to his benefit. It's a true inside look that just came to our attention. The subject of the story is Babe Schwartz, a liberal firebrand attorney who served many years in the Texas Senate.

The storyteller is a former State Representative from Brady, **Terry Townsend, who after four terms in the legislature became president/CEO of the Trucking Association.** Townsend claimed Schwartz's "way of getting re-elected was to **demagogue an industry in the session before his election – banks, insurance, etc.**"

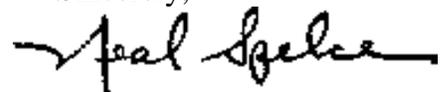
"Well, he made the trucking industry the target before his last race," said Townsend. "Fortunately, that session was the first one the Texas Senate started taping their proceedings." So what did Townsend do?

"At the trucker's annual convention that summer I showed over 1,000 truckers a huge picture of Schwartz as a background with them hearing his taped speeches ... calling truckers crooks, unsafe, dangers to the driving public, etc. I told my members I did not work for a bunch of crooks, showed them my personal check for \$1,000 towards defeating Schwartz and challenged them to join me in this fight," said Townsend. They gave big bucks and campaigned against Schwartz.

Schwartz said election night, when he lost, that he had truck treads all over his back. Townsend said Schwartz didn't realize **truckers delivered products to every business in his district and they urged their customers to vote against Schwartz.** So, Schwartz moved from Galveston to Austin "where he made more than ten times as much money a year as a lobbyist." Said Townsend: **"He even later gave credit to the truckers who, by defeating him, had helped him become very wealthy."**

Dr. Louis Overholster pointed out Babe Schwartz had a wicked sense of humor, much of it self-deprecating. As an example, Schwartz jokingly repeated after brain surgery, his doctor said he didn't have enough brain left to practice law... but he could lobby!

Sincerely,



Editor/Publisher