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Dear Client:

**Those involved in Austin residential real estate have been spoiled. Throughout 2015 and 2016, buyers enjoyed historically low mortgage rates for many months. Despite predictions they'd rise sooner, they finally began to increase in mid-November. Now as the New Year is just around the corner, what is likely to happen to all-important mortgage interest rates in 2017?**

You can get many individual predictions. So to provide the best info, **Brad Inman** interviewed *seven* housing and economy experts to get a consensus. **Austin homeowners, buyers, sellers, agents, lenders, brokers will be impacted by mortgage interest rates.** Here's a quick take.

**Will we see rates go back down?** Short answer: not likely.

**How high could they get?** The consensus was that the 30-year fixed rate in 2017 will likely stay in the 4% range – 4.5%, or even 5% by year's end.

**What will buyers do?** As rates start moving up, buyers might feel pressure to act – up to a point when their homeownership dream becomes out-of-reach. But we aren't there yet.

**What will sellers do?** When sellers have bought a home at a low rate, and rates are rising, a phenomenon known as “rate lock” can take effect – sellers have a disincentive to move.

**How will a hot market like Austin fare?** Where affordability is already an issue, small rate bumps will have a slight dampening effect – specifically for first-time homebuyers or lower income folks. Repeat buyers or those buying higher-end homes won't feel it as much.

**What will the Fed do?** The Fed pushing short-term rates up (as it did this week) doesn't necessarily automatically translate to higher mortgage rates, but it does put upward pressure on them.

**Low interest rates alone have been an almost unintentional subsidy for homebuyers that basically is going away.** But the overall economy is a major influence. The expectation is that wage growth will increase in 2017, which is good for homebuyers, according to the pros.

**If you need reminding about the fast rise of Austin housing prices, the American City Business Journals (ACBJ) compared local housing prices in 124 housing markets and found Austin led the US where the value of a typical home soared by 64.9% between 9/30/06 and 9/30/16.**

And, while Austin led the nation, it had company with other Texas metros. In the Top Six: **#3 Houston** at 45.2% ... **#4 Dallas** at 43.0% ... **#5 San Antonio** at 35.9% and **#6 Fort Worth** at 34.6%. Denver was the only non-Texas city at #2, with a 45.5% increase.

**The fast rise in Austin home prices is demand due to the tremendous increase in population resulting in a low inventory of homes. Much has been made of the “invasion” of Californians. So *Culture Map* checked the numbers. And contrasted it with Austinites moving to California to come up with a net gain. Bottom line: the Austin area had a net gain of eight Californians a day, where housing costs are way above those in Austin.**

From 2010 to 2014, an estimated **7,317 Californians** moved to Austin, while **4,353 Austinites** moved to the same 26 metro areas in the survey. **Net gain for Austin: about 3,000.** So, which California metros are the source of Austin’s Californication?

The largest contributors are: **Los Angeles** – net gain for Austin, 1,273 residents ... **San Francisco** -- net gain for Austin, 744 residents ... **Silicon Valley** – net gain for Austin, 368 residents ... and **Riverside (Inland Empire)** – net gain for Austin, 288 residents.

City of Austin demographer **Ryan Robinson** says the flood of Californians into the Austin metro will continue “as long as we keep creating good jobs and our **real estate market continues to be relatively affordable in comparison to these more expensive markets. We love to complain about collapsing housing affordability in Austin, but the truth is that we are still affordable compared to where many of our migrants are moving from.** This affordability differential is certainly less than it used to be, but appears to be rather durable nonetheless.”

**Here’s a development to watch if you are concerned about the governance of the City of Austin: A new Moody’s report calculates Austin’s unfunded pension liabilities is 267% of annual operating revenues, a percentage so high it ranks 9<sup>th</sup> in the nation – not good. Dallas is #2 on the list and Dallas’ mayor used the “b” word (bankruptcy) when discussing it.**

Houston, #4 on Moody’s list, is talking about going to the Texas Legislature for help. While these are serious situations, **pension fund liabilities, like a mortgage, don’t come due all at once. But you should definitely keep your eye on Austin’s situation.** Stay tuned.

**It's the American Way – competition. Millions and millions of dollars are being invested, some of it here in Austin, on driverless cars. San Francisco is another city where the driverless cars are being tested, researched and rolled out. Companies are striving to be first and best. The verdict is still out, but the competition is fierce. Austin is in the thick of it.**

But Austin better not become complacent thinking it is the center of the universe when it comes to driverless cars. Yeah, sure, we've reported for some time now that **Google cars were moving around Austin with nobody holding onto the steering wheel.**

Austin mayor **Steve Adler said Austin is the Kitty Hawk of driverless cars** because Google proclaimed this week that its **driverless car with no steering wheel or brake pedals – carrying a passenger who was actually blind – successfully negotiated Austin streets** last year in an error-free test drive.

But remember, not much has happened in Kitty Hawk since the Wright Brothers made their first airplane flight. And, as we said, **Google competitors are racing ahead with their own driverless vehicles.** Such as?

Such as this week when **Uber** (yes, the same ride-hailing company that left Austin due to a disagreement with the Austin City Council) **added a “handful” of driverless Volvo luxury SUVs to its ride-hailing fleet in San Francisco.** Vehicles are now being tested by Uber in a public, commercial environment. These rides cost the same as ordinary ones.

Sure, crowded Austin streets have their challenges. But San Francisco may be **a bit more daunting with its famously steep hills, frequent fog, street and cable cars,** an active bicycle culture, and roads that are constantly being repaved, remarked and restricted for bike lanes and traffic management.

Uber has had a driverless pilot program since September in Pittsburgh. **Several other companies visit San Francisco regularly with test prototypes, though none is yet offering public rides.** (If you've ever driven San Francisco streets, you'll probably agree it may be the most challenging “test driving” course in an urban environment.) So, this new auto concept is aggressively being pursued by a number of entities—20, to be exact, in California.

By the way, **Uber is skirting the edges of legality by what it is doing in San Francisco,** dodging permits necessary to conduct its tests (sound familiar, Austinites?).

Back to Google for a minute. **Watch for the name, Waymo. This is Google's business unit for the driverless car.** Now, a final word, though much still needs to be written -- and will be, backers claim the **ultimate vision of the driverless technology is to save thousands of lives because it doesn't drink, text, fall asleep or take dangerous risks.**

**Speaking of falling asleep while driving, it is estimated that sleep deprivation creates driving risks similar to driving with a blood alcohol concentration equal to or slightly above the legal limit for alcohol. This info is timely for Austin drivers as they negotiate crowded city streets during the sometimes-stressful holiday period.**

The results of a AAA Foundation for Traffic Safety study estimates that as many as 7% of *all* crashes ... 13% of crashes that result in hospital admission ... and 21% of fatal crashes involve driver drowsiness. Which drivers are at risk? Drivers who usually sleep for **less than 5 hours daily** ... drivers who have slept for **less than 7 hours in the past 24 hours** ... and drivers who have slept for **1 or more hours less than their usual amount of sleep in the past 24 hours** – these drivers have significantly elevated crash rates. Be aware.

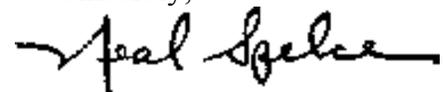
**A hot button issue that may make headlines next month when Texas legislators come to Austin for 140 days: transgender bathrooms. Lt. Gov. Dan Patrick, who controls the agenda in the State Senate, has been pushing hard for a bathroom bill to ban transgender bathroom.**

Those opposed to legislative limitations on transgender bathrooms – this includes the influential Texas Association of Business – are concerned about the economic impact. For instance, other **states have lost conventions and sporting events because of their tough stance on transgender bathrooms**. So, even though both the Texas House and Senate are controlled by conservative republicans, the legislative result is a bit iffy.

Austin's new state senator, **Dr. Dawn Buckingham**, thinks a final bill may focus only on public schools, not businesses or sporting venues. And Gov. **Greg Abbott**, who wields a mighty veto pen, is suggesting he would like to “go slow” – taking a wait-and-see attitude.

Reminding: we traditionally take a 2-week year-end hiatus, so your next issue will carry a January 6, 2017 date. Hope you have a happy holiday – not like **Dr. Louis “Scrooge” Overholster** who is threatening the kids in his family that he will give them batteries, with the note “No toys included!

Sincerely,



Editor/Publisher