

# Austin condo market: How much is too much?

## Developers and analysts say Austin could keep bucking national trends

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Construction cranes and the shells of new buildings dot the downtown Austin skyline. Developers tout the latest high-rise condominium projects, some with luxury units topping \$1 million. But from Miami to Las Vegas, a real-estate slump has been dashing developers' dreams.

And the question at Austin cocktail parties is: Could downtown, where developers have more than 1,400 luxury condos under construction and nearly 3,200 planned for the next few years, end up with too many units and too few buyers?

**Several experts say the market is solid, fortified by healthy job, population and income growth.**

But some who have lived through boom-and-bust cycles here and elsewhere caution that Austin isn't bulletproof and that demand for downtown condos, where prices can range from the \$200,000s to \$3.8 million, may shrink.

"The current environment reminds me of the summer of 2000, when a lot of projects were competing," said Alan Holt, who sold luxury condos in the then-new Plaza Lofts as the technology bust hit downtown. "Fortunately, the fundamentals of the Austin market now are much stronger than they were in 2000."

The current projects, however, are more costly and ambitious than those in 2000 were. And the national real-estate market is in the midst of a decline, prompted by loans to high-risk clients and tightening credit that is affecting even the most affluent buyers.

For every 100 potential buyers who could have qualified for a mortgage in recent months, only 50 to 60 can qualify today, said David Taughinbaugh, a senior vice president in Prosperity Bank's downtown branch.

"It's fortunate that all these projects aren't ready for move-in at this point in time," he said. Given the new landscape, "lenders are beginning to and will continue to scrutinize the projects more closely," making it harder for all but the best-conceived projects to move forward.

Forecasting demand for luxury condos is difficult, partly because there is little historical data for the fairly new phenomenon in Austin, said Eldon Rude, director for the Austin market of Metrostudy, which tracks the housing market.

**The next 12 months will be telling, Rude said. "We won't know how strong this market is until we see some of these projects get completed and begin to close units and move residents in."**

Their performance will depend on the economy, he said, "and it's impossible to forecast the state of our economy 12 months from now. "

**City leaders say that downtown needs residents, not just weekday office workers, to be vital and vibrant and that the growing region needs more downtown living options to help curb sprawl. Mayor Will Wynn said he'd like to see 25,000 people living downtown by 2015, up from an estimated more than 5,800 now.**

### **The developer view**

Developers at all the projects said they are seeing strong interest and sales.

At Spring, "we have sold all our lower-priced units," said Diana Zuniga, a partner in the project. Prices for the available smaller units start at \$265,000, and three-bedrooms start at \$815,000, with the highest priced in the low \$900,000s. About 40 percent are under contract.

**At Novare Group's 44-story tower going up next to the Austin Music Hall, more than 90 percent of the 430 units are under contract, with deposits averaging 5 percent of the sales price, said Taylor Andrews, president of Andrews Urban, the local development partner with Atlanta-based Novare.**

**Prices at the project, called the 360, range from \$190,000 to \$350,000 for one-bedroom units and from \$270,000 to \$550,000 for two-bedroom units.**

**Andrews said demand for downtown condos in Novare's price range "far exceeds the current and projected supply."**

Local real-estate consultant Charles Heimsath agreed, saying, "The slow and staggered delivery pace will allow each project to capture a reasonable market share."

In the past, Heimsath has said there is enough demand for at least 300 to 400 new condo units a year downtown, and more if they're priced at under \$250,000.

Novare's pre-sales, Heimsath said, "suggest there's pretty strong demand, and that's not even a full year of sales, so I would have to adjust my demand estimate upwards from there."

The 305-unit Monarch, financed as apartments, recently switched to condos, and there are prospective buyers for at least half of the units, the developers said.

The switch, Heimsath said, "supports the perception that the market is extremely strong now, and this should be a great time to bring product to the market."

**The Monarch will open in April, with units ranging from \$229,900 to \$1.75 million.**

Brandon Easterling, principal and owner of Avera Residential, which is developing projects on Lamar Boulevard and Congress Avenue south of downtown, said he thinks there is "pent-up demand that has existed for quite some time that is now being satiated by the projects that are coming on line."

But he added, "If Austin begins to see a turn in the condo market like other markets across the country, the higher-priced units are the ones that will be negatively affected first."

Bob Barnes, president and chief executive of International Bank of Commerce in Austin, said he foresees the market remaining healthy for the next couple of years, based in large part on strong job growth.

IBC is lending \$85 million in construction financing for the 42-story Spring, which broke ground last month at West Third and Bowie streets.

"The market is self-governing right now, and it is just about on par with current demand," Barnes said.

"While there is some exposure to economic problems elsewhere in the country, we're still optimistic about Austin," said Daniel Hogan, director of research for Red Capital Group, an Ohio lender that tracks the apartment and condo markets in the 50 largest metro areas, including Austin. "It's one of our top-rated markets for investment because of its trends."

### **The high end**

Developers say demand is greatest for one-bedroom units priced under \$350,000 and for two-bedrooms priced under \$500,000, but the outlook is murkier for the market of \$1 million or more.

From 2000 to 2007, developers built 50 condos in downtown Austin priced at or above \$1 million. About 40 sold, roughly six sales a year.

Three projects breaking ground this year, however, will add 567 luxury units by 2009 or 2010, many of them around \$1 million. Those projects are the W Hotel & Residences, the Four Seasons Residences and the Austonian.

The 55-story Austonian, which is set to break ground Friday at Congress Avenue and Second Street, has units priced from \$550,000 to \$3.8 million. Gottesman Residential, which is marketing the condos, said that reservations are being converted to contracts and that sales are going well but won't disclose numbers.

The W has reservations for 75 percent of its 196 planned condo units, said developer Stratus Properties Inc.

Then there's the 21c Museum Hotel, a 44-story tower that would include 200 condos, with the highest-priced topping \$2 million. It's also set to open in 2010. The developers said the local market is deep enough to sell 65 units a year at their project alone.

Still, prices of the new units appear to push the envelope of what prospective buyers can afford, said Jack Hazzard, an asset manager who formed the Ontra Companies in the 1980s to dispose of distressed properties that were repossessed by more than 200 banks and savings and loans.

Using the federal Housing Affordability Index, Hazzard said a person or household making just under \$60,000 a year and with no major debt could qualify for the lowest-priced downtown condo, about \$200,000 or roughly \$260 to \$300 per square foot for a small one-bedroom.

But many of the newer condominiums will come on the market at \$600 a square foot and more, or \$480,000 for an 800-square-foot unit. That would require an income of \$140,000 a year, assuming the buyer has no major debt, Hazzard said.

He cautioned that buyers who don't plan to live in the units beyond five to seven years could face trouble reselling at a profit. That's because he thinks financing will continue to be difficult to obtain, and prices could decline if demand eases.

Currently, 72 condos are on the resale market downtown, with an average price of \$691,000. Of those, eight are under contract, and 15 have sold in the past two months.

That pace, about eight a month, translates into a nine-month supply, which can create delays for those wanting to sell.

"Today is just a very exposed time to buy a condominium unit and not expect to have the prices go down," Hazzard said. As mortgage rates go up, "prices must come down, and the market could be affected dramatically."

What's ahead

In Madison, Wis., a university town often compared to Austin, there's a condo glut, a three- to four-year supply, said Sheridan Glen, a broker-manager of the Capitol office for First Weber Group Inc., a residential and commercial brokerage firm.

"We're telling developers they should plan on selling one to two a month instead of three or four a month, so build those longer-term holding costs into your price structure."

Glen said it's shortsighted to think a condo glut can't happen in Austin. "You're not insulated. Nobody is."

The developer mentality, Glen said, "is not to overanalyze the market. It's to get the land acquired. A developer only makes money if he builds something. If they can get land and financing, they're off to the races. Nobody thinks their building will end up empty. Did you ever see a developer that didn't have a big ego?"

Still, said Ryan Sweet, an economist with Moody's Economy.com, developers "obviously feel comfortable enough to pursue these projects" in Austin despite U.S. housing troubles .

**Austin's housing prices, though relatively high for Texas, have never gotten out of whack as they did on the East and West coasts, he said, and the Austin economy is strong.**

**"The Austin market seems to be a different animal from the rest of the country," he said.**

**Developers, and even some condo skeptics, agreed with Sweet. But they also said the next few years will determine how different Austin really is.**

**Courtesy of JB Goodwin**