

## Downtown condo market defies the downturn

By [Shonda Novak](#)

AMERICAN-STATESMAN STAFF  
Saturday, Sept. 18, 2010

Three months ago, Jennene and Ray Mashburn moved into their new home on the 22nd floor of the Austonian, the tallest and most expensive of the latest wave of high-rise condominium towers that have reshaped downtown Austin's skyline.

Jennene and Ray, 70, a retired Southwestern Bell executive, sold their 5,400-square-foot house in Barton Creek 3½ years ago and had been renting downtown as they watched the Austonian being built, ultimately rising to 56 stories at Congress Avenue and Second Street.

The Mashburns, who were the first buyers to sign up for a unit in the building, now enjoy views of the Capitol and the University of Texas Tower, and the Frost Bank Tower gleams from their bedroom at night.

"Oh, my gosh, we love it," Jennene Mashburn says of the couple's 3,500-square-foot home in the sky. "The amenities here are just great."

A few blocks east, Tom Langston is enjoying his new sixth-floor unit in the 32-story Four Seasons Residences at San Jacinto Boulevard and Cesar Chavez Street, next to the Four Seasons Hotel.

Langston, a contractor and consultant for the U.S. Department of State, has a two-bedroom unit with a large patio and views of the Driskill Hotel and Capitol. His neighbors in the building will include former Dell Inc. executive Tom Meredith and his wife, Lynn, who have purchased the 31st-floor penthouse, and former UT System Regent John Barnhill Jr.

Despite coming to market during the worst national recession in decades, the newest projects have managed to hold their own.

According to the developers, 389 of the 736 units in the four newest buildings are sold or under contract. The others are the 42-story Spring, which opened a year ago on the west side of downtown, and the W Austin Hotel & Residences, under construction north of City Hall.

"The market in the past 12 months is far stronger than what we experienced in the previous year," said David Ward, executive vice president for Atlanta-based Post Properties Inc., which developed the Four Seasons Residences with Ardent Residential. "The fear that was prevalent during the depth of the downturn has been replaced by confidence."

At the Four Seasons, 77 of the 148 units are sold or under contract, the developers said. The count at the other projects: 70 of the 178 units at the Austonian; 158 of 247 at Spring; and 84 of the 159 at the W, where the first buyers will be able to move in within a few months.

In addition, prices generally are holding, although Spring is advertising entry-level pricing specials on some one-, two- and three-bedroom units. Diana Zuniga, a partner in Spring, said the special prices are for units that might not have the best views or the most upgrades.

At the Four Seasons, where prices range from \$400,000 to \$4 million, Ward said pricing "has been very stable." The Austonian has even raised prices on some units.

In general, sales activity "has been surprisingly good, given the very high price point of this latest wave of condominium construction," said Charles Heimsath, a local real estate consultant for many downtown developers. Heimsath noted that the average asking price among the four projects is just over \$1 million.

Aside from a recovering economy, the developers of the new projects have two other things in their favor.

One is that most of the projects targeted very affluent buyers. Heimsath said a fairly high percentage of buyers in the four new projects paid cash for their units, which are second or third homes for some.

Another is the absence of new competition. As lenders turned off the spigot for new construction during the downturn, several proposed projects have been postponed or shelved.

No new downtown condo projects have been started since work began on the 37-story W in 2008, said Terry Mitchell, strategic marketing director for the Austonian, adding that "the inventory of available new luxury condos continues to dwindle."

The downtown condo market this year is "significantly better" than last year's, said Mitchell, who is also a local real estate developer.

"Overall in Austin, the real estate market is not overheated, but it's not dead, and downtown is one of the bright spots," he said. "Demand is stronger than I ever thought it would be at this time."

In February, "we saw a distinct increase in traffic and demand for downtown homes," Mitchell said. "We attribute this change to recognition of the finite inventory in the market and the strength of the Austin economy."

"Austin is doing very well relative to other markets," he said, noting that job growth is healthy even amid strong population growth.

At the Austonian, a \$275 million project by Austin-based Benchmark Development — whose corporate parent is Grupo Villar Mir, a Spanish conglomerate — prices run from the mid-\$500,000s to more than \$8 million.

Mitchell said the developer is not lowering prices but has raised them on its better-selling units — by as much as

8 percent in some cases.

"People routinely make lowball offers, but we don't accept those," he said. "We're selling at a good volume without having to lower prices and fire-sale units like that."

Asked where the developers had projected the Austonian to be in terms of sales by this time compared with the 70 sales to date, Mitchell said, "we had hoped to be a little higher" — but not hugely higher, given the lofty prices, which he said limits the pool of buyers.

"We didn't expect to sell 178 condos overnight," he said.

Mitchell said many Austonian buyers are paying cash for their units, and mortgage financing hasn't been an issue for residents.

Caution and cash

At Spring, nearly half of the buyers are also paying cash, Zuniga said.

"Many of them feel real estate is a much safer place for their money than the stock market," she said. "This is radically different from 2007."

When construction started on Spring that year, Zuniga said, "we thought we would be 70 percent sold at completion." But she said those expectations were adjusted when the recession hit in 2008, and the project ended up with about 35 to 40 percent of its units spoken for.

"We are currently selling at a much faster pace than we thought we would be in 2008," Zuniga said. "We just hit the 60 percent sold mark, and the pace of sales continues to increase. \u2026 We are making five to 10 new sales every month, and we expect to see this number increase as the economy continues to improve and consumer fear continues to lessen."

Mitchell also noted that there is "caution in the air," as "every single person has had someone they know pretty strongly affected by this recession." But he thinks the more affluent buyer generally is less affected by the economy than the average person.

Larry Warshaw, a partner in Spring and Barton Place Austin — a new complex of 270 condo units on Barton Springs Road southwest of downtown — said that despite 2008 and 2009 being two of the worst economic years in decades, they proved to be the two top years for downtown condo sales.

Those sales were boosted by the 2008 opening of the largest project to date — the 430-unit 360 condo tower at Third and Nueces streets — but "this doesn't make the numbers any less impressive," Warshaw said. "It shows that the Austin market easily absorbs supply."

Additionally, Heimsath said, it will be years before a new wave of construction begins. Given the time it takes to bring a new project to market, "five to seven years is probably not an unrealistic estimate" for when construction cranes reappear downtown, he said.

"If we had just continued adding inventory and there were two to three additional projects coming to market now, I would be concerned, but that's not the case," said Heimsath, who estimates it will take at least two or three years to absorb the existing condo supply downtown.

Alan Holt, a real estate broker who represents sellers and buyers of downtown condos, said that though there is a lot of new inventory downtown, there also is a lot more to draw people to the area as downtown grows more dynamic.

"Austin is a good long-term investment, and downtown, even with all the growth of the past few years, still has tremendous upside potential," Holt said. "If downtown Austin were a stock, I would be buying all of it I could right now."

"As the inventory of new condos decreases, and with no new developments coming out of the ground, the market should start to see upward pressure on prices," he said. "The question is just a matter of how soon that will happen."

Heimsath says he thinks prices downtown will fare about the same the rest of Austin's housing market in the near future, which is "a pretty flat market in terms of appreciation."

"We're not seeing any substantial decrease in prices, but there's also no rapid escalation in value, and I think that's going to remain constant for the next 18 to 24 months," he said. By contrast, in the long term, "if the supply remains constrained, there will be some appreciation in value," he said.

Awaiting price moves

John Lewis, a veteran Central Texas investor and developer, said he and his wife, empty-nesters who now live in Barton Creek, had considered buying a unit in the W but held off when the economy crashed.

"It just wasn't a good time to be buying units at full retail," Lewis said. "When the nicer (projects) down there are all completed and we know what the economy is going to do and prices, I anticipate, will settle down a little bit from their lofty goals — I think at that point that'd be a good time to look at it again."

Jeff Thomas, senior vice president and general manager of H-E-B's Central Texas region, also would like to live downtown. But first he needs to sell his 5,000-square-foot West Lake Hills home, where buyer interest waned this summer.

"I love the downtown area, so it's still tops on my list," Thomas said. "I'm hoping prices have settled out and will make for an easier buying decision."

Langston said he paid "in the \$700,000 range" for his Four Seasons residence. And despite homeowners' fees of about \$900 a month, he said he's getting his money's worth, including a concierge who can find UT football tickets.

With the Four Seasons name, an 80-year management agreement between the Four Seasons hotel and Post Properties, and a location in a part of downtown where Langston sees upside potential, "this is a stable project to buy in," he said. "I'm in great shape investment wise."

**Courtesy of JB Goodwin**



The Austonian - Congress Avenue between Second and Third streets