

Housing expert: Austin faces new-home shortage as economy rebounds

Too few lots under development for builders to meet demand, so prices will rise, local market tracker predicts.

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Thursday, August 06, 2009

A scarcity of new lots in the development pipeline, coupled with a continued slowdown in homebuilding through 2009, will create a shortage of new homes in the near future for Central Texas and an increase in home prices for buyers, a local housing expert said Wednesday.

"The fact is that there are not enough new lots being developed," Mark Sprague, the Austin partner for housing market tracker Residential Strategies Inc., said at the Home Builders Association of Greater Austin's midyear housing forecast.

Because it can take two years get a subdivision approved and under construction, "this means that when the economy turns around, builders will not be able to get (lots) developed quickly enough to put inventory on the ground, leading to a shortage of new homes in the market," Sprague said.

And when the supply of homes is reduced, he said, "prices will start to trend upward."

"Now is the time to buy," Sprague said, noting that homes won't be cheaper next year and that mortgage rates, which dropped below 5 percent in May, also are heading up. "Economic recovery is expected to begin by the end of 2009 when existing new-home inventory is low."

The median price in the second quarter was \$213,000, unchanged from the same quarter of 2008.

Sprague said economic woes and the tight lending market will force builders to start fewer homes through the rest of the year.

At the same time, more homebuyers are taking advantage of historically low mortgage rates and an \$8,000 federal tax credit for first-time buyers, which is helping to reduce inventory, he said.

Although builders picked up the pace on new-home starts in the second quarter, the rate was still down about 35 percent from the second three months of 2008.

At the peak in 2006, builders constructed more than 17,000 homes in Central Texas. Last year, they built 9,800 houses, and this year they are expected to build an estimated 6,400 homes.

But some builders say the market is stabilizing and are preparing for a turnaround.

Sprague told builders that D.R. Horton Inc. is making a smart gamble by planning to build 700 speculative homes — those without buyers lined up — in its subdivisions in Central Texas.

Most of the houses under construction are priced less than \$200,000, where D.R. Horton officials say there is a shortage of houses but strong demand.

The luxury market will continue to feel the brunt of the pain, Sprague said, noting that starts are off 50 percent in the \$300,000-plus range compared with a year ago. That segment began pulling back later in the downturn, and its recovery will lag as well, he said.

According to Metrostudy, which also tracks the local housing market, the annual pace of home starts was down in all price ranges for the 12 months that ended in June.

However, the most significant declines continue to be in the higher price points, Metrostudy said.

Annual starts for homes priced below \$150,000 declined 28 percent, while those priced between \$150,000 and \$750,000 fell 35 to 45 percent in the past four quarters, Metrostudy said.

Only 13 homes priced above \$750,000 were started in the second quarter, and builders started just 90 homes in that price range during the 12 months ending in June.

Courtesy of JB Goodwin