

Austin home market expected to remain strong next year

Home prices up significantly in 2006 and expected to be higher in 2007.

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Central Texas home builders have been offering plenty of year-end discounts and bonuses to boost sales, but that doesn't mean that the Austin area housing market is cooling or that prices are falling.

Strong job growth, a steady influx of new residents and relatively affordable prices have kept the Austin housing market strong, even as markets on the East and West coasts faltered.

That isn't likely to change in the coming year.

Angelou Economics predicts the Austin area will add about 20,000 jobs and 40,000 residents next year, about as many as were added in 2006. According to Texas Workforce Commission, Central Texas' total work force reached a record 728,100 in 2006.

Home sales will likely remain brisk, while a low supply of houses, combined with rising building material and land costs, will push prices higher.

The Austin housing market could be affected by trends in other markets. Sales to West Coast buyers could slow as investors and people seeking to move to Austin find it harder to sell or take equity out of their homes. Falling profits elsewhere could spur national production builders to raise prices and reduce the number of houses they build here.

But outside forces are not expected to have a significant impact on Central Texas.

"Assuming nothing drastic happens that we don't foresee, I don't know why 2007 won't be just as good a year as 2006 or better," said Jim Gaines, research economist with the Real Estate Center at Texas A&M University.

The price of new and existing houses increased significantly in 2006.

The median sales price of an existing house was \$174,000 for the first 11 months of 2006, according to the Austin Board of Realtors, up 7 percent from the year before.

The median price of a new house in the third quarter of this year was \$212,527, according to real estate research firm Metrostudy, a nearly 15 percent jump from the same time last year.

Dr. Susan King is counting her blessings. Last spring, the North Austin family practitioner signed a contract to buy a new 4,800-square-foot house in the estates of Bella Vista in Cedar Park. "If we would have signed now, I think it would have been more expensive, because the prices have gone up," she said. She closed just before Christmas.

The base price for the Wilshire Homes model home she chose when she signed was \$440,000. Now it's about \$460,000, and upgrades are also more costly.

Higher home prices are partly due to a tighter supply.

Several consecutive years of strong sales have reduced the inventory of existing houses on the market to the lowest level since 2001.

The Real Estate Center estimates the Austin area has enough existing homes on the market to last just 3.3 months at the current rate of sales. That's considered a tight supply, putting sellers in the driver's seat on setting prices.

"At (inventory) levels like this, I would expect to see home prices increase pretty dramatically in the next year," said Mark Dotzour, chief economist at the center.

With strong demand and less competition from the resale market, builders have more leeway to raise prices on new homes, to offset the rising cost of materials and land.

Big, publicly traded national production builders such as D.R. Horton, KB Home and Pulte Homes dominate the Central Texas market. They may need to raise prices in strong markets such as Austin as they watch profits decline in many other parts of the country.

"The local builders are facing tremendous pressures to produce because the market is slowing in other parts of the country," said Dick Rathgeber, a longtime local developer. But Austin can't keep taking up the national slack without reducing the supply of houses even further.

"Now that their margins are not as high in those coastal markets, they are looking to the other divisions including Texas to be more profitable and show better margins," said Eldon Rude, director of the Austin office of real estate research firm Metrostudy. "One of the ways the public builders are likely to do that is to carry less speculative inventory. That is one of the reasons that we're seeing them have a strong push to reduce their inventory levels during the end of the year."

Some builders have offered end-of-the-year discounts to spur sales. In mid-December, for example, Pulte was offering discounts as high as \$40,000 on every one of its homes in Central Texas.

They also have offered cushy incentives to real estate agents who find buyers for their houses. Beginning in October, some agents received daily e-mails about various incentives — such as 10 percent commission, rather than the typical 3 to 6 percent — on certain houses in communities such as Leander.

Those initiatives likely will enable builders to start 2007 with less inventory and put them in a position to have better margins on homes they do sell next year.

Metrostudy expects builders to sell about as many houses next year as the 16,000 the research firm estimates they will sell by the end of 2006, but they will likely slightly slow the pace of building in an effort to keep inventory tight.

Other national trends could affect the Austin market.

Slowdowns in other once-hot markets, such as the West Coast, could reduce the number of investors buying homes and moving here as it becomes harder to sell or get equity of properties elsewhere.

Mortgage data research firm First American Loan Performance estimates approximately 15 percent of new mortgages in the Austin area last year were for investor homes purchases, while nearly 8 percent were for second homes. That's up from nearly 14 percent and 6 percent, respectively, in 2005.

Working late at the office of Austin-based Streetman Homes recently, founder Randy Streetman fielded three calls from interested California buyers after 8 p.m.

West Coast residents with plenty of cash from selling their homes are still buying in Central Texas, he said. But the recent housing downturn there has led to a spike in contract cancellations here.

Rising prices also could put home ownership out of reach for many buyers.

"Generally speaking, housing prices are growing about twice as fast as wages," said Brian Kelsey, assistant director for the Capital Area Council of Government's Center for Regional Development.

Still, Austin-area home prices remain low compared with those in many other markets. Nationally, the median existing single-family home price was \$221,300 in October, according to the National Board of Realtors.

Long-term, Austin won't be immune to the cyclical nature of the U.S. economy. Last month, the White House forecasted that the national economy will grow at a slower pace during the next six years.

"We will be subject to the cycles that impact the overall economy," Rude, of Metrostudy, said. "If the U.S. slows more than is expected by most economists, then, we will feel that in Austin as it related to the demand for housing."