

# Housing market still a stabilizing force for Austin's economy

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Wondering what a housing bust can do to a city's economy?

Residents of Las Vegas can tell you. So can homeowners in Phoenix, Orlando in Florida and Riverside/San Bernadino in California — the metro areas hit hardest when the housing bubble burst.

In the past four years, these cities have seen foreclosures soar, home values plummet and homebuilding grind nearly to a halt.

The ripple effect on those cities' economies has been dramatic: swiftly rising unemployment, significant construction job losses and a major drain of homeowners' personal wealth.

**The antithesis of that picture: the Austin-area housing market.**

**By sidestepping the national bubble, the Austin housing market served as a stabilizing force for the Central Texas economy. That, experts say, was key to helping the region outperform many other U.S. metro areas during the economic downturn.**

**Unlike the wild roller-coaster ride that house prices took in states like California, Florida and Nevada, Central Texas registered steady prices — flat at worst — in a state that had the sixth-lowest foreclosure rate in the nation. Since 1996, the median home sale price here has only twice sustained an annual decline.**

**That stability is felt across the market — including in the area's overall job picture. The Austin area's unemployment rate was 7.4 percent in September — dramatically better than 13.6 percent in Las Vegas, 13.4 percent in Riverside/San Bernadino, and more than 10 percent in Orlando.**

"Housing is a giant job creator," said Scott Norman, an Austin mortgage broker and past president of Texas Mortgage Bankers Association. "There are a lot of people whose livelihoods depend on a house being bought and sold."

## **Contributing factors**

Several factors contributed to the relative stability of the Central Texas housing market during the downturn. They include stricter home-equity lending laws in Texas than some other states, the diverse local economy, and continued job and population growth, housing experts and economists say.

The region also has a more plentiful supply of land and lots — and fewer impediments to developing it — than in some of the boom-bust states, said Eldon Rude, director of the Austin office of Metrostudy, a housing market research firm. This resulted in lower price appreciation in our housing market during the most recent housing boom, he said.

In contrast, a run-up in demand in the hardest-hit states, coupled with a limited supply of land and lots, resulted in significant appreciation of those lots, which made the homes more expensive, Rude said.

Rude said several key indicators provide "powerful insight" into the differences in the housing industries and underlying economics of the Austin area when compared with the boom-bust markets.

- Pricing: Home prices locally didn't experience a big boom-bust cycle like they did in Las Vegas, where prices went up 44 percent per year at the peak ; Phoenix, up 41 percent per year at the peak; and Orlando, which saw 33 percent annual appreciation at the peak, according to the Federal Housing Finance Agency. By contrast, Austin's peak annual home price appreciation was 10.5 percent, according to the agency's data.

On the flip side, prices have dropped sharply, down 16 percent in Las Vegas from mid-2010 to mid-2011, and by 15 and 10.7 percent in Phoenix and Orlando, respectively. The decline in the Austin area was much lower at 2.3 percent during the same 12-month period.

- New-home construction: Home starts plunged nearly 90 percent from early 2007 (roughly the housing peak) through September of this year in Las Vegas. Phoenix and Orlando also saw dramatic declines, nearly 85 and 72 percent, respectively.

By comparison, the Austin area registered a 61.4 percent decline, the lowest during that period among major Texas cities and well below the most troubled markets.

- Construction employment: Comparing September 2006 — roughly the peak of new home construction — with this September, construction employment fell 62 percent in Las Vegas, and Phoenix and Orlando each lost more than half of their jobs in the sector. During the same period, construction employment in Austin dropped slightly more than 8 percent.

"This comparison is pretty telling with respect to the impacts on these economies as a result of the huge decrease in construction," Rude said.

According to the National Association of Home Builders, every dollar spent on new construction turns over six times in the local economy, as builders pay contractors and suppliers, who pay their employees, who then spend money at local businesses; so construction job losses ripple throughout the economy.

### **Dodging 'slippery slope'**

Other factors that have helped keep Central Texas housing prices from overinflating, experts say, are the state's home-equity lending laws; attitudes about homeownership; and considerably higher property taxes, which have kept an artificial lid on rapid home-price appreciation.

In the boom-bust states, the run-up in prices was driven in part by more lenient lending laws, which "added fuel to this idea that housing is always going to go up," Norman said. For a time in California, homeowners were able to borrow up to 125 percent of their home's value, leaving them underwater on their mortgages when housing values cratered. In Texas, that amount is capped at 80 percent.

Texas has a different mentality when it comes to home ownership, Norman said, and that has helped shield the state and local housing markets from some of the problems that have hit elsewhere.

"Texans, traditionally, don't look at residential real estate like a stock or something you trade every 18 months," he said. "That mentality led to the slippery slope many states found themselves on during the bubble build-up of the last decade, whereas, housing in Texas is much more like a bond or a long-term investment."

Texas, Norman said, "was very much founded on the rights of the homeowner," state homestead laws and the "belief that a house is where I'm going to raise my family."

Delinquency and foreclosure rates are significantly lower in Texas than in most other states, he said, largely because of the home-equity lending cap.

"There's not another banker or mortgage CEO in the country who wouldn't rather be in Texas right now," Norman said.

Harry Savio, executive vice president of the Home Builders Association of Greater Austin, said that Texas formerly limited home-equity lending to loans for homestead improvements and a few other "emergency-type" items. Though lending later was loosened up, it remains more strict than in most states, he said.

### **A steady supply**

Also playing a steadying role in the region's housing market, experts say, was that the market wasn't overbuilt nearly to the degree as metro areas where builders had been churning out homes and raising prices — sometimes weekly — during the boom.

When the housing downturn hit, local builders weren't left with an excessive glut of homes to sell off, as they were in other markets.

In the Austin region, "inventories are back to what we'd call a balanced market — a six-month supply," said D'Ann Petersen, a business economist with the Federal Reserve Bank of Dallas who follows the local housing market.

"The supply numbers never got way out of whack, and that's helped with the prices," Petersen said. "I think our economy held up better too. As other parts of the country were seeing jobs eliminated, we had people moving here, and that would help to stabilize the housing market."

The housing market in the Austin area has bottomed, Petersen said, and it's well-positioned to improve going forward "as long as any unforeseen issues don't show up."

### **'Sensible here'**

By and large, the local housing market has "sound home construction and pricing policies" that lend stability to it, said Doug Scott, senior vice president and area manager with ViewPoint Mortgage, a Texas-based mortgage company.

Scott is well-positioned to offer perspective on the Austin housing market, having moved here from California. Scott bought his first three houses there, and said he saw how people's ability to obtain mortgages that allowed them to pay no principal while keeping their monthly payments low, later came back to haunt them when interest rates and payments reset, leading to huge default rates. In Central Texas, he said, the mentality is to buy a house as a place to live, "not use it as an ATM or to make a fortune out of."

Scott said the housing downturn of the past four years "has awakened homeowners across the country, and the entire Western world, that you buy a house to live in and pay down a mortgage as a means to build equity, not as a get-rich-quick scheme."

"It's slow, steady and sensible here, as opposed to so many markets where homeowners were buying and flipping, buying and flipping," he said.

"It was bound to come to an end — and it did."

## How the Austin area stacks up against U.S. boom-bust housing markets

Central Texas suffered along with the rest of the nation during the recession and housing downturn. But a comparison of several key housing-related indicators shows that the local market fared significantly better than the four major metro areas hit hardest by the housing bust.

### New home starts

Market	Q1 2007	Q3 2011	% change
Las Vegas	32,010	3,600	-88.8%
San Bernadino/Riverside, Calif.	27,935	3,512	-87.4%
Phoenix	38,901	5,984	-84.6%
Orlando, Fla.	32,205	9,119	-71.7%
<b>Austin</b>	<b>16,267</b>	<b>6,271</b>	<b>-61.4%</b>

### Construction employment

Market	Sept. 2006	Sept. 2011	% change
Las Vegas	110,000	41,900	-61.9%
San Bernadino/Riverside, Calif.	130,200	60,500	-53.5%
Phoenix	182,600	86,600	-52.6%
Orlando, Fla.	91,700	44,300	-51.7%
<b>Austin</b>	<b>46,000</b>	<b>42,200</b>	<b>-8.3%</b>

### Peak annual home price appreciation

Market	% change	Peak date
Las Vegas	44%	Q4 2004
San Bernadino/Riverside, Calif.	34%	Q4 2005
Phoenix	41%	
Orlando, Fla.	33%	
<b>Austin</b>	<b>10.5%</b>	<b>Q1 2007</b>

### Home price change, Q2 2010 to Q2 2011

Market	% change
Las Vegas	-16%
San Bernadino/Riverside, Calif.	-5%
Phoenix	-15%
Orlando, Fla.	-10.7%
<b>Austin</b>	<b>-2.3%</b>

Note: Construction figures include all types of construction.

Source: Metrostudy, U.S. Bureau of Labor Statistics, Federal Housing Finance Agency

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Courtesy of JB Goodwin