

# Builders making cautious bets on a new-homes rebound

By **Shonda Novak**

AMERICAN-STATESMAN STAFF

Saturday, Nov. 13, 2010

Speedy and Susan Nash moved this month from Bellevue, Wash., to western Travis County, settling on a home in the Falconhead West subdivision along Texas 71.

Speedy Nash, a retired sales representative for a golf company, and his wife said they were attracted by nearby Lake Travis and the region's weather, music, lifestyle — but mostly by its friendly people.

"When we visited a year ago, we felt like we had been given a big shot of adrenaline," Susan Nash said. "The friendliness and energy is so contagious. We are very social people, so that really appealed to us."

The couple paid \$460,000 for their 3,270-square-foot home. They said a comparable house would cost upward of \$900,000 in the Seattle area, mostly because of higher land values there.

The Nashes bought one of 253 homes that have been completed or are under construction at Falconhead West, which ultimately is due to have 453 homes. With a low property tax rate, Hill Country views and desirable schools, the subdivision ranked No. 5 on a recent list of Central Texas' 10 top-selling communities.

Buyers moved into 128 Falconhead West homes during the 12-month period that ended in September, according to Metrostudy, the housing research firm that compiled the list.

Falconhead West signifies an emerging — but still tentative — pickup in the Central Texas new-home market after a prolonged lull ushered in by the deepest recession since the Great Depression. With mortgage interest rates at historic lows just above 4 percent and the region's respectable growth in jobs and population, builders are cautiously optimistic about 2011.

They're hopeful it will be a year of gradual improvement after a moribund 2009 and a 2010 that got a shortlived boost from the federal homebuyer tax credit. Budget officials for area cities that have seen a sharp drop in revenue from residential building permits during the downturn also are hoping to see building activity increase in 2011.

Although both starts and permit applications are down in most parts of the region from year-ago figures, Metrostudy's most recent surveys showed a sharp increase in the number of prospective buyers visiting model homes in October, which is likely tied to a slowly improving economy and a tightening rental market, said Eldon Rude, director of Metrostudy's Austin division.

However, "subdued consumer confidence and ever stricter mortgage underwriting criteria continue to make it a challenging market for the area's builders," Rude said.

Gary Latz, vice president of consulting services at Bohlke Consulting Group, said permit applications were up at nine of the 10 most active subdivisions in the 12-month period that ended Sept. 30 compared with the previous year.

## **Attention from Phoenix**

Taylor Morrison, with headquarters in Phoenix, is building homes in Austin-area communities including Falconhead West, Steiner Ranch and Crystal Falls in the Leander area. Construction on the first 170 homes at Crystal Falls is set to start in early February, with prices ranging from \$180,000 to more than \$600,000, said Tim Towell, division president for Taylor Morrison.

Taylor Morrison showed its confidence in the Austin market when it paid cash this summer for 1,176 lots at Crystal Falls, the largest transaction of any homebuilder in Central Texas in several years, and the largest single purchase Taylor Morrison has made in the U.S. over the past several years.

"The purchase in Crystal Falls shows we do feel good about the Austin market," Towell said. "There are pockets that are continuing to do well, even in the downturn, and we think that's going to continue."

Towell said Taylor Morrison is faring better than some other builders locally because its communities are in good locations with desirable schools and other amenities to attract buyers.

## **Areas of sales activity**

Other subdivisions that are seeing comparatively brisk sales activity include Sun City Texas in Georgetown. Sun City topped Metrostudy's top-selling communities, with 204 closings, followed by Steiner Ranch, Teravista in Round Rock, and the Ranch at Brushy Creek in the Cedar Park/Leander area.

- KB Home is building in nine communities in Central Texas, including Waterleaf in Kyle and McKinney Heights in Southeast Austin, both with prices starting at \$109,950. And KB Home is actively looking for more land, said Cathy Teague, a spokeswoman for the Los Angeles-based builder.

"Our land acquisition team is burning the midnight oil," Teague said, adding that the builder is optimistic about the prospects for 2011 based on anticipated job growth and the traffic and buyers KB Home is seeing at its communities.

- In western Travis County, Drees Custom Homes and Highland Homes has started on the first models and homes at Hillwood Residential's Rocky Creek Ranch community along Hamilton Pool Road, where builders plan to construct 400 homes in all.

"We've definitely seen, in Austin and San Antonio, the market is really coming back," said Craig McMenemy, Austin division president for Drees. He said Drees and other builders he has talked to saw sales pick up in September and October, with Drees having a 20 percent bump in those months this year compared with the same months last year.

"Builders' prices are some of the lowest in years, and people are going to recognize that these interest rates, the lowest since the Eisenhower era, are never going to repeat themselves," McMenemy said.

- Austin-based MileStone Community Builders, a new name on the scene, said it seized the downturn as an opportunity to get in the game as other builders retrenched. MileStone, backed by capital partner Castletop Capital, is building in Cedar Park, South Austin and far West Austin, toward Lake Travis.

- In the southwest part of town, a desirable area with a tight supply of lots, Standard Pacific Homes has closed on the purchase of 163 lots in the proposed Avana development whose lender had moved to foreclose last year. Standard Pacific plans to have the first homes ready for sale by spring of next year, priced from the mid-\$200,000s to the low \$300,000s.

John Bohnen, vice president of land for Standard Pacific, said that although the second half of 2010 "has been a challenge for the Austin market," the area is still doing well compared with the national housing market.

Mortgage interest rates are low, and some key economic indicators such as improved job growth and lower inventory levels are beginning to improve, Bohnen said.

"Continued improvement in these areas, coupled with increased consumer confidence, should eventually lead to the market improving," Bohnen said.

### **Mild downturn hangover**

Garrett Martin, president of MileStone, said the company was started Jan. 1 as a result of builders pulling back, a move he described as shortsighted.

"The impact we've seen from the housing downturn in Austin has been significantly less than what was anticipated," Martin said. "We fared significantly better than the rest of the country, and ultimately, that's going to lead to (a tight) lot supply.

"We're rapidly running out of lots to build on in the more desirable areas," Martin said, a view some other local market experts share.

MileStone is the only builder in the Paradiso Villas subdivision at Parmer Lane and Brushy Creek, where the company plans to build about 100 homes, and also at the Cypress Creek Townhomes community at Lakeline and Cypress Creek boulevards, where it plans to build about 140 homes.

Prices at Paradiso range from \$169,000 to \$225,000, and at Cypress Creek from \$130,000 to \$170,000.

The company also is building in West Cypress Hills, a large master-planned community Castletop is developing along Texas 71 five miles northwest of that highway's intersection with Hamilton Pool Road.

"We see that as the next big area to prosper in that submarket," Martin said.

Two builders have constructed 150 homes there, and MileStone has a contract to buy 100 lots with utilities already in place. It has nine homes under construction, with another 40 more to come during 2011. Home prices in West Cypress Hills range from \$225,000 to about \$400,000.

MileStone also is building the first of about 40 homes near Manchaca and William Cannon Drive priced from \$180,000 to about \$220,000. And it's getting City of Austin approvals for an adjacent tract where it plans 40 more homes priced from \$180,000 to \$220,000.

"We're optimistic about where the market is headed, and we anticipate continual improvement in market conditions, based on job growth," Martin said.

### **Recovery on the horizon**

Central Texas had a 2.3 percent job growth rate from September 2009 through September 2010, adding 17,300 jobs, according to the most recent figures from the Texas Workforce Commission.

Meritage Homes said that "continues to see activity in our Austin communities, including first-time and move-up buyers who recognize what a great buying opportunity exists today."

The buyers are a mix of locals and relocation buyers, "with West Coast transplants in particular attracted to the great housing value here and employment opportunities available in technology fields," said Steve Harding, Meritage division president.

"The Austin market appears stable to us, and we continue to seek greater market share," Harding said.

With the lingering effects of the tax credit fading in the coming months, builders are expecting stronger demand early in 2011, said Rude of Metrostudy. The firm's surveys indicate that the supply of new homes is at a 13-year low, so any marginal increase in new home sales will require that builders quickly increase production to meet demand, he said.

With the region adding more than 17,000 new jobs, and annual new home starts generally bottoming out over the last six quarters, "I expect new home demand to gradually improve as we move through 2011," Rude said.

MileStone's Martin said the company is positioning for a market recovery, "but we are not certain whether that recovery will take six months or a year or longer. Regardless, we believe that a strong recovery will ensue."

[snovak@statesman.com](mailto:snovak@statesman.com); 445-3856

### **Top 10 new home communities in Central Texas**

Based on closings for the 12 months ended Sept. 30

1. Sun City Texas, Georgetown 204
2. Steiner Ranch, Northwest Austin 200
3. Teravista, Round Rock 170
4. Ranch at Brushy Creek, Cedar Park 183
5. Falconhead West, western Travis County 128
6. Crystal Falls, Leander 121
7. Avery Ranch, Northwest Austin 119
8. Waterleaf, Kyle 118
9. Mueller, East Austin 118
10. McKinney Heights, Southeast Austin 112

Source: Metrostudy

### **Top 10 areas for permits**

Based on applications from the third quarter of 2009 through the same quarter of 2010

1. Cedar Park 586 +11.8%
2. Georgetown 556 +15.6%
3. Round Rock East 492 -6.1%
4. Austin/South 437 -6.8%
5. Pflugerville 417 -3.9%
6. Buda 315 -14.9%
7. Austin/West 283 +47.4%
8. Round Rock West 277 -11.8%
9. Austin/Central 269 -8.2%
10. Austin/East 262 -28.0%

Source: Bohlke Consulting Group

**Courtesy of JB Goodwin**