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The condominium conundrum

Projects fizzle as backers face tough decisions

Austin Business Journal - by [Jean Kwon](#) ABJ Staff

At least 700 condominiums -- almost a dozen buildings -- slated to be built in Central Austin are either on hold indefinitely or scrapped altogether, according to an analysis by the Austin Business Journal.

With the national economy in a slump, credit markets running dry and more than 3,000 new condos either online already or soon to hit the Central Austin market, many developers say they've had no choice but to alter their plans.

This month, for example, the developer of the Hotel Van Zandt, San Diego-based JMI Realty, said that the 55 condos planned to go on top of the boutique hotel would not be built, reducing the building's height by nearly half to 16 stories. The hotel, at Red River and Davis streets, is expected to finish by September 2010. The developer of Aquaterra, Crescent Resources LLC, confirmed it has put on hold indefinitely the 163-unit, 20-story project planned for Barton Springs Road between Congress Avenue and South First Street. And last month, developers of the Metropolitan, a luxury eight-story mixed-use project planned near the Capitol, filed for Chapter 11 bankruptcy.

Some developers have found financing more difficult to come by, which means it's taking them longer to turn dirt.

The 7 Rio Grande, a planned 34-story condo tower, was supposed to break ground this fall and now is expected to do so in 2010. Anne Ickes, a development associate at CLB Partners, which is developing the project, says the tower will go up but not anytime soon. Ovation, the 37-story condo tower by Novare Group and Andrews Urban, the partners behind the recently finished 360 condo project, was expected to break ground this summer; it will now do so in the fall, says Andrews Urban President Taylor Andrews. The project has also been redesigned. The downtown post office that exists on the site was going to move into the ground floor of Ovation; it will now move to 9th and Red River streets. The number of units has shrunk from 433 to 400 units and office and retail space has increased from 35,000 to 40,000 square feet.

Simmons Vedder & Co. had plans to start construction this year on 230 condos at the Triangle mixed-use complex at the intersection of North Lamar and Guadalupe streets. The nine-story building is still in its design stage. "We're basically on hold at this point," says John Burnham, a development partner with Simmons Vedder, attributing market conditions and robust competition in the condo market sector. Burnham says the company is not looking at a groundbreaking until August 2009.

And at least a dozen more projects announced in the last few years have been indefinitely shelved as developers here weather the storm [see map, page 1].

Atlanta-based Gameday Centers, which had planned roughly 200 luxury condos and "tailgate suites" near the University of Texas, was expected to break ground in spring 2007 and be ready in fall 2008. Duane Doblak, a spokesman for Gameday, says the project never got past its preliminary site review and marketing stages and that no project is currently being pursued. "The real estate market is pretty soft right now and there's nothing we would consider in the next 12 months," says Doblak. "That's not Austin in particular, that's just nationally."

Others are sitting, waiting and mulling offers to sell their sites. Matt Mathias, co-founder of Austin-based Interurban Development, which planned an ultra-luxury condo project in East Austin featuring a 14,000-square-foot "skydeck," panoramic views of downtown, an open-air amphitheater, and a saltwater pool and spa, says that the company has its site development permit in hand but is waiting out the market, adding that he would consider offers on the site. "Everything is for sale at a price. We believe in the Austin market, [which is] clearly one of the strongest markets in the nation right now. But right now there's a tendency of residents to lease rather than buy."

Stephen Soward, principal at development firm StrateGEM, is marketing a 28,160-square-foot lot at 1705 Guadalupe, where it had planned a 173-unit mixed-use project. "If someone out there that is a little braver than we are wants the property, they are welcome to talk to us about it," says Soward.

Despite some sobering of its condo boom, downtown Austin--and Austin in general-- remains one of the country's top markets, far outpacing Houston and Dallas, says Mark Sprague, Austin partner of Residential Strategies Inc. Downtown sales -- new and resale -- averaged 850 units annually in the last two years, and prices have stabilized, not gone down, Sprague says. "No one is discounting the value of these parcels yet," he says. A local slowdown doesn't reflect Austin's viability as troubled markets like Miami and Atlanta precipitate investor pullout across the board, Sprague says.

Still, tightened credit markets mean there will be a slimmer margin of error for poorly conceived projects. And about 35 to 50 percent of local buyers will be lost due to credit issues, Sprague says.

"The bottom line is virtually no one wants to make any loans for real estate development right now," says Mark Dotzour, chief economist for the Real Estate Center at Texas A&M University.

National banks remain under distress and regional banks, historically the main source for development funds, are struggling as well, Dotzour says. And on the equity side, investment is dormant. Political uncertainty is also tapering any significant investment activity.

Despite widespread woes, attrition of projects is a sign of a healthy market, says Larry Warshaw, principal at Constructive Ventures, which is developing Spring, Barton Place and several other condo projects. The market is sifting through all the proposals to find the viable ones, he says.

"The right projects with the right location at the right price, [and those] demonstrating strong presales with experienced teams are moving forward and getting built," he says.

Courtesy of JB Goodwin