

Credit crunch squeezes Central Texas home starts

Builders putting off planned projects but are confident of rebound.

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By now, rows of houses should have replaced the bales of hay on the 700-acre Goodnight Ranch 10 miles south of downtown Austin. But more than two years after the city approved the 3,500-home development, construction has yet to disturb the pasture and farm land just east of Interstate 35 and Slaughter Lane.

Two years ago, developer Terry Mitchell said eight large homebuilders had expressed interest in taking 200 to 300 lots apiece at Goodnight Ranch. They offered between \$5 million and \$7 million in earnest money, which would help pay for \$8 million worth of water and wastewater lines and other improvements.

"In late 2007, I surveyed those eight builders, and they collectively couldn't come up to \$500,000," Mitchell said. The project is on hold for a year.

Tight credit for builders and buyers alike, slowing job growth and the darkening clouds over the economy have dramatically changed the new-home landscape in Central Texas.

Two years ago, builders started a record 16,000 homes in Central Texas. This year, they're on track to build slightly more than 10,000, based on new figures from Residential Strategies Inc.

It's not over yet: Housing experts say the slowdown could continue to deepen for at least another year, until the mortgage and financial markets recover.

Short term, that means some good deals for buyers as builders pile on incentives to sell off their inventory before the end of the year.

One result of the builder pullback is that Central Texas doesn't have a glut of unsold new homes that has driven down prices, as is the case in many other cities. At the current sales rate, it would take 6.3 months to sell the current supply, compared with almost 11 months nationally.

The local median price for new homes in the third quarter was \$210,870, almost unchanged from a year earlier, according to Residential Strategies.

"We've been impacted, but we're not suffering a hangover that a lot of those other markets are suffering from," said Derrick Jones, a former marketing executive for homebuilders who now owns Austin City Living, a real estate brokerage.

Still, he said, builders are offering concessions ranging from free upgrades for buyers making a full-price offer to as much as \$100,000 off on an \$800,000 home.

Jones said the incentives will start easing as the year comes to a close but won't go away altogether until the market rebounds.

Mortgage money remains tight, with some lenders requiring up to 20 percent down — a sharp contrast to the zero-down loans that proliferated just two years ago, Jones said.

"I think the lenders are more receptive to making loans here than they would be in some other more depressed parts of the country," he said. But as for 100 percent financing, "it's really just not there any more."

Commercial capital drying up

The credit situation is much more severe for builders and developers. Money to buy land for future subdivisions became scarce this summer and has all but dried up in recent weeks.

"It's extremely difficult to get money," said Bob Wunsch, chief executive of Austin-based Waterstone Development, a longtime Williamson County developer. "You have to have very good builders and a very good piece of land, or I doubt you're going to get money in this market."

National, publicly traded companies, which account for almost 60 percent of homebuilding activity in Central Texas, have been especially hard hit by the credit contraction.

Last year, Dallas-based Centex Homes signed a contract to buy 450 acres of the Pearson Ranch in Williamson County, planning a \$275 million, 1,400-home subdivision, which would have been its biggest project ever in Central Texas. Several months later, it canceled the deal as the housing downturn deepened. In late December, D.R. Horton pulled out of the Headwaters at Barton Creek, a proposed 1,000-home development where it had purchased options on lots.

The builders' retreat has some real estate observers questioning whether the stage is being set for a housing shortage, at least in some areas, once the economy rebounds.

It takes three years, sometimes longer, to plan and build a subdivision, Mitchell said. But developers are reluctant to spend the money to prepare land until they're confident builders will be ready to buy lots.

"If you make the assumption that the market is going to grow someday in the future, we're going to have a (lot) shortage," Mitchell said. "We are a manufacturing business with a three-year cycle, so when you turn off the plant, you don't have houses in two months" once you restart it. "It's going to be awhile."

However, because builders slammed on the brakes so quickly once the downturn started, there is an oversupply of lots ready to build on: more than 31,000, up from about 27,000 a year ago. Most of the excess is in outlying areas, including west of Lake Travis, where there's an 85.8-month supply. Far Southeast Austin, near Bastrop, has more than a 90-month supply.

With scant new development in the pipeline, the overall supply will be absorbed in 2½ to three years at current demand levels, predicts Mark Sprague, the Austin partner for Residential Strategies.

But forecasting the future is clouded by the huge uncertainties about the economy and the spreading credit crisis.

"In light of the seriousness of the issues at hand regarding the global financial markets, it is extremely difficult to gauge the extent of the slowdown in the local housing market over the next year or so," said Eldon Rude, the Austin director of Metrostudy, which tracks and forecasts the housing market. "Any forward view of the market must assume that the current credit crisis will be resolved in the coming quarters."

Rude thinks new-home prices over the next year or so will be flat at best.

"We're going to have less demand for housing over the next year than we have in years past," he said.

Sprague said if current sales trends stay steady for the foreseeable future, the new-home market should be close to bottoming out. The wild card, he said, is "the stabilization of Wall Street and the outcome of the financial bailout plan."

"With the uncertainty of the credit markets and the increased prospects for a national recession, there continues to be a chance for further market erosion," Sprague said.

Austin has several factors in its favor. Job growth has slowed significantly in the past year but remains about 2 percent, compared with heavy job losses nationally.

"We continue to have high-paying jobs move here compared to other markets," Sprague said, citing the money management firm Dimensional Fund Advisors as an example. The firm moved from California to Austin in the past year, occupying a brand-new office building in West Lake Hills. "As a state, we created more jobs than the next 14 (highest-ranked) states in job creation, so we're in a good place."

Builders also are closely watching the resale market, where the 10,300 listings in August were the fourth-highest on record, according to the Austin Board of Realtors. That is substantial competition for new-home sales.

The resale median price has continued to rise. But there are early signs that could be changing. The August median of \$195,000 was up just 2 percent from a year earlier, the smallest increase since September 2005, when the median rose 1 percent.

"Resale in a good location is still selling; it's just not selling at prices that people were able to get two years ago," said Helen Edwards, Central Texas regional president of Coldwell Banker United, Realtors.

"We're seeing signs of activity on the new construction product, new homes that are priced aggressively, so we know that the buyers are still active in the marketplace," Edwards said. "Plus, we're hearing loud and clear from many of our sellers that they're comfortable with lowering their listing prices if it means getting offers and selling quickly."

Looking for upturn

Some private builders are betting on a rebound.

Wunsch said he has been positioning his company for a turnaround in the next 12 to 18 months by getting entitlements and approvals for 6,000 lots in several projects. They include Avery Center in Round Rock and Three Forks and Somerset Hills in Georgetown. After Centex canceled its Pearson Ranch plans, Wunsch bought 195 acres of that land and was able to sell 400 lots.

Once the market rebounds and builders release money to buy lots, "we'll be ready to serve them pretty quickly," Wunsch said. "That's been our whole game plan. We're going to be two years ahead of another company starting from scratch."

The new-home market is oversupplied now, "but the good news is that we are back to the 8,000 to 10,000 starts range, which is a more normal pace for the Austin market," he said.

He said Waterstone has formed a real estate investment fund with several investors. The primary investor is Hans van Veggel, chairman of a Dutch company that is the largest shopping center developer in Europe.

"They've committed dollars, and as opportunities come along, we have the ability to jump on those opportunities," Wunsch said. "In this environment, with banks being apprehensive on new loans, we're still fortunate we can get loans, but we have to put in more equity."

Wunsch bases his optimism on several factors. His contacts in Europe, he said, believe "Texas is still the place to be in the U.S., and Austin is the diamond of them all."

Wunsch is on the board of the economic development committee in Round Rock and says there are "quite a few" new corporate prospects eyeing the region for expansion or relocation.

And recently, he said, he finally had some encouraging conversations with national homebuilders.

"They're cautious, but they're starting to talk optimistically," Wunsch said.

Ryan Jackson, sales director of Austin-based Streetman Homes, also is optimistic that the market will turn next year, once the financial bailout plan is under way and the presidential election is decided.

"We are anticipating growth for next year," Jackson said.

Mitchell said he and his partners hope to start work on Goodnight Ranch within the next year.

They've already spent \$3 million on some of the infrastructure needs, and the Austin school district opened Blazier Elementary School nearby last year.

"We're pretty convinced that the market is going to turn," he said. "We don't want to wake up one day and say, 'It's a good time to start building a house; we'll see you in two years.' We'd like to be ready for this."

Courtesy of JB Goodwin