

Downtown condo market strong despite downturn housing market

Community Impact News

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With the national housing market in freefall, the newly minted Austin downtown condo market is finding traction with potential buyers and sellers saying inventory is still behind demand.

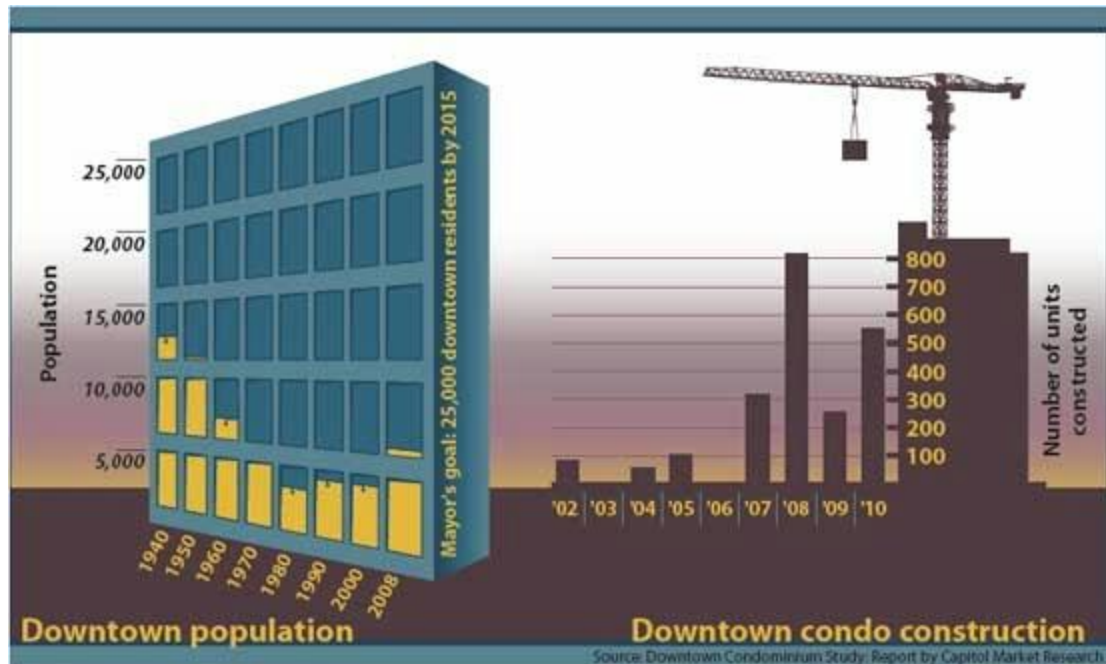
"If people are waiting for the crash to come and for people to give away condos downtown, it's not going to happen," Spring developer Perry Lorenz said. "People love to say that the condo market downtown is overbuilt. The ones that are built are sold. There aren't empty condos hanging over the market."

A tour of empty condos in Austin wouldn't fill an afternoon, as most projects are under construction and in the presale phase. The next project to hit the market, 360, has 90 percent of its units under contract and more than 98 percent reserved, the developer said. As the next three major projects come online - Spring, The Austonian and The W - more than half of the condominiums have already been presold, despite the fact that they won't be ready until 2010.

Mark Sprague of [Residential Strategies](#) said Austin currently has a 30-month supply of condominiums. A 24-month supply is ideal, Sprague said, as that is roughly the time it takes to get a new project approved and ready for presales.

Projections on when the market will accelerate vary from 2010 to 2015, but when it does, analysts agree that units will be absorbed aggressively. However, with new projects not set to hit the market until 2010, there may not be enough condominiums to go around.

"I would like to see another building delivered in mid-2009," said Kevin Burns, founder of urbanspace Realtors, LLP. "It is healthy to get everything absorbed and then have another product come to market. But the thing is, there isn't another building coming to the market."



Presale backlash

Although presale numbers look strong, the numbers may be inflated because some buyers have backed out of presale agreements.

"This is a sad state of affairs, but these condo developers all have hired attorneys to write their contracts for them, and obviously those contracts are written to protect the developers instead of the buyers," real estate agent Mike Doerr said. "It ties the buyer into the contract price, regardless of how the market shifts."

Some contracts also allow an increase of anywhere from 5-10 percent of the original price depending on the cost of building materials and inflationary factors. With poor market conditions reducing the value of condos, investors would walk away from their deposits rather than get in deeper.

"I would estimate, in a rough guess, that a third of the people are walking away from contracts," Doerr said. "That is another condo that has to go back on the market, and the value of that condo is 20 percent less than what it might have been when the market was robust."

Downtown lifestyle

As recently as three years ago, if an Austin police officer saw someone on a sidewalk at 3 a.m. in west downtown, he would keep an eye on that person. Nowadays, APD says there are dozens of people on West Sixth Street at 3 a.m., most of them walking their dogs.

Austin is the fifth fastest growing city in the U.S., according to the [U.S. Census Bureau](#). Last year, nearly 50,000 new residents moved to Austin; if only 1 percent of the population moved downtown, that would mean 500 new residents.

"There is a snowball effect with urban living," Taylor Andrews, president of Andrews Urban, said. "I personally know folks I would never have dreamed would want to live in downtown Austin that have made the transition."

Burns said the market is getting stronger as more housing options become available downtown. Condos are selling for \$120,000 to \$8 million and everything in between. Buyers range from the stereotypical young, single crowd (27 percent of buyers are under 30 years old) to empty nesters to young families (35 percent of buyers are 30-44 years old, and 26 percent are 45-59 years old).

Nearly two-thirds of buyers are moving into downtown condos as a primary residence, and 70 percent of those buyers do not live downtown, according to a downtown condominium study performed by Capitol Market Research.

While the current market may favor those who are well qualified, Lorenz feels it will eventually take care of itself.

"The real way to have affordable housing is supply, supply, supply. Developers will overbuild to the point that they wreck their own market. I'm not predicting a crash, but there will be some containment. Ultimately, the rich guys will get tired of their 10-year-old condo and want to move up. The natural occurrence is the older stuff will become cheaper," Lorenz said.

Changing downtown

Not only does a strong central core benefit Austin, it is changing the makeup of downtown. Nearly every condominium has a retail element on the first floor that generates sales tax and makes for more interesting strolls through the city.

Eddie Safady, president of Prosperity Bank, has lived on Congress Avenue for seven years and wants to make sure that the retail element of the high rises suits the needs of downtown residents.

"Having retail just for the sake of having retail doesn't make it better. It has to be retail that people want," Safady said. "Our downtown has to grow into being a real downtown that has everything you need within walking distance. We are still not willing to give up our cars."

Financing tightness

Despite increasing interest in a downtown lifestyle, lending constraints are making the transition difficult for developers and prospective condo buyers.

"It is extremely difficult to get construction lending on projects more than \$100 million, and very difficult on projects more than \$50 million," Andrews said. "It's tougher times like this where some of the weaker companies will disappear. There is a weed out process that occurs, and we are seeing that and will continue to see that."

Andrews Urban has a bank fully committed to its next project, which Andrews attributes to the company's proven record of success and relationship with the bank.

Big name developers are still being held to stricter standards.

Lorenz's company, Constructive Ventures, Inc., will not start construction until 40 percent of the units have sold.

"There is no longer the arrogance of, We're real smart and if we build it, they will come," Lorenz said. "We don't want to get stuck in that position, and even if we did, the lenders aren't that permissive."

Individuals are also experiencing difficulty in acquiring funding. Sprague said the number of qualified buyers has been reduced by 35-50 percent since last year due to the loss of the jumbo financing market and more difficult qualifying marks.

"The secondary jumbo market has absolutely disappeared, so any loan over \$417,000 has to be held by the bank," Andrews said.

The average condo price in downtown Austin fluctuates around \$450,000, which means buyers have to find a bank willing to give them a jumbo loan or have a substantial down payment.

"Buyers are having trouble getting the right type of funding, despite now being the right time to get a lot of product," Doerr said. "Banks that are lending money are getting inundated, so they get to cherry pick which loans they want to make."

Burns acknowledged the loan problem, but is encouraged by condo demand.

"Yeah, we have a lot of units available right now today," Burns said. "But looking at the number of units that are absorbing and knowing there aren't going to be any new projects deliverable in the near future, it's now or never."

Mayor's goal: 25,000 downtown residents by 2015

Courtesy of JB Goodwin