

Home starts drop in first quarter

Austin market remains healthy, but builders are wary

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AMERICAN-STATESMAN STAFF
Friday, April 06, 2007

The softening housing market around the country may be taking a toll on Central Texas. The number of home starts in the first quarter of 2007 dropped 28 percent compared with the same period a year ago, according to figures released Thursday.

Area builders started 3,327 homes in the first quarter, down from 4,613 a year ago, according to Dallas-based Residential Strategies Inc., which tracks new-home activity. At the same time, builders sold more new homes, up 4.3 percent from the same quarter last year. And the median price rose 9.3 percent to \$204,443 from the year-ago period.

Builders have become wary of starting homes in part because it's more difficult for some buyers to qualify for mortgages, said Mark Sprague, a partner in Residential Strategies' Austin office. The tighter credit requirements are related to the shakeout in the so-called subprime market, he said.

And that shakeout has trickled into Austin, with more stringent lending rules, he said, especially among subprime lenders, who specialize in loans to people with poor credit histories. This could cause families with lower incomes or sketchy credit to be shut out of the market.

"These challenges are primarily impacting builders in the first-time market, homes generally priced below \$200,000," said Eldon Rude, director of the Austin office of real estate research firm Metrostudy. "Builders in price points above \$250,000 report that their businesses remain strong, with robust job growth and the associated flow of relocations to the Austin area supplying many of their buyers."

The latest figures illustrate his point. Home starts in the \$111,000-to-\$150,000 range plummeted 51 percent in the first quarter, compared to a year ago. And starts for homes priced from \$151,000 to \$200,000 were down 35 percent.

Meanwhile, starts for homes in the \$251,000 to \$300,000 range soared 47 percent.

This will result in fewer new homes priced for entry-level buyers and will lead to more people renting, Rude said.

The decline in home starts can also be seen as good news, said Jim Gaines, research economist at the Real Estate Center at Texas A&M University. It means that the Austin market, unlike many others in the country, is not overbuilt or going to be in the near future.

"It may be a very natural and good thing that the home builders are being a little careful not letting the market get out of hand with an excess of inventory," Gaines said.

In Austin, there's far from an excess, the new figures show. As home starts decline and new-home sales increase, the market is getting increasingly tighter. There's about a 2.2-month supply of new homes on the market, well below the national average of about five months, according to statistics compiled by Residential Strategies.

"That indicates a very tight market, a very strong market," Gaines said.

Nationally, however, the market outlook is comparatively gloomy. Large-production builders, who dominate the new-home market, are battling high inventories. And those builders are becoming more conservative in starting speculative homes, Sprague said.

"Corporate decisions are being made out of state that are affecting what they're doing on the local level," Gaines said. "They're having trouble with Wall Street, but it has nothing to do with the local market."

With the subprime situation having the greatest impact on first-time buyers, many builders are putting lots back on the market, mainly in lower-priced subdivisions, said Dick Rathgeber, an Austin developer with residential projects in all price ranges.

But Rathgeber said national builders are "overreacting in Austin," where the housing market "is still strong because of our strong employment."

By selling off lots, Rathgeber said, those builders are opening the door for competitors to come in. And, he said, there are plenty of potential first-time buyers with good credit.

Also, builders who are selling off lots could find themselves in a predicament when they want to ramp up starts down the road, Rathgeber said. Because it takes 18 to 24 months to get a subdivision started, from land purchase to groundbreaking, "those lots won't be there, and they won't be able to produce them in a timely manner. There's going to be a delay getting back into the pipeline."

Gaines said he expects the Austin market to remain strong in 2007.

"For the last four years, every year has been stronger than the previous year," Gaines said. " '07 has the potential to come in a little lower than '06, but it doesn't mean the market has fallen off the cliff or gone into the dumps. It just didn't go up as much."

Last year, home builders cranked out a record number of homes, 16,754, up 10 percent compared with 15,221 in 2005.

Other housing statistics:

- The number of finished vacant homes increased slightly, just more than 1 percent, in the first quarter, compared with a year ago.

- The supply for resale homes is strong, with only a 3.2-month inventory, according to Texas A&M University's Real Estate Center.**

- The greatest percentage of new homes sold in the first quarter, 28 percent, or a total 938, were priced from \$151,000 to \$200,000.

Courtesy of JB Goodwin