

Home starts continue to fall

Builders slow down production, reduce new-home inventory

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In the latest sign of Central Texas' slowing economy, area builders continue to cut back sharply on the construction of new homes, with second-quarter starts falling to their lowest level since Residential Strategies Inc. began tracking the numbers in 2004.

The 19 percent reduction in new-home starts came as the region has seen job growth and existing home sales decline to four-year lows, office vacancies climb to their highest level in three years and the jobless rate ticks up.

Builders started 2,814 homes across Central Texas in the second quarter, down 19 percent from the same quarter last year, according to Residential Strategies.

Builders also had 18 percent fewer closings than in the second quarter of 2007, dropping to 2,728.

Cash-strapped builders have been decreasing their inventory in the past year as the U.S. housing market has plummeted.

Mark Sprague, Austin partner for Residential Strategies, said he was "a bit surprised" by how much starts fell but attributed the decline to the continued pullback of large- production builders, more stringent lending standards for both developers and buyers, and the drop in consumer confidence.

"I was surprised more by the starts than the closings," he said. "Nobody can get lending for their developments. When you get up and look from the aerials, there's not a lot of development going on."

Because of those local reductions, however, the Austin area does not have a glut of new, unsold homes compared with other markets across the country.

"We're in a much better (position), but it's not as robust as it was two years ago," Sprague said.

A year ago, Austin's economy was firing on all cylinders, with job growth above 5 percent — the strongest in the state.

Now, Austin's job creation rate has retreated to where it was in 2004.

Central Texas added 16,800 jobs between May 2007 and May 2008, a 2.2 percent increase.

"We're still adding jobs, we're just adding them at a slower rate than six months ago," said Charles Heimsath, a local real estate consultant.

Other economic measures also have faltered, including consumer confidence, which Heimsath said is at its lowest level in 30 years.

"And that's not just people living in San Francisco. That's people living in Austin, Texas, as well," Heimsath said.

At the same time, record gas prices are pinching consumers and businesses alike.

Eroded consumer confidence, coupled with political uncertainty in an election year, has made consumers "very hesitant" to make major purchasing decisions such as buying a home, Heimsath said.

"I don't see a whole lot happening before the November election," he said. "But once we know who will be in the White House and what Congress will look like and what direction national economic policy is going to take, I think you could expect some positive movement in the first quarter of 2009."

A new report on Texas metro economies from Wells Fargo Economics forecasts that Central Texas' personal income will grow by 5.7 percent this year, down from 8.8 percent in each of the past two years. Population growth will fall to 2.9 percent, the lowest rate since 2004, the report said.

And the housing market will "continue to encounter problems during the rest of this year and into next year, as credit conditions remain weak and growth slows down further," the report said.

Last month, D'Ann Petersen, an associate economist with the Dallas Federal Reserve, predicted 2008 will "remain a tough year."

"The uncertainty that's rampant in the national economy also has trickled down here to Texas," Petersen said.

On the positive side, Heimsath said, "the fundamentals in Austin are a lot better than they are in the rest of the country. The rate of foreclosures is lower, our average home sale prices have not declined the way other markets have around the county, and we continue to have positive job growth."

Eldon Rude, Austin partner of Metro-

study, which tracks new home activity in 33 markets across the U.S., said Austin, along with Charlotte, N.C., "exhibits the strongest fundamentals with respect to its economy and its housing market."

However, Rude said he expects the Austin new-home market to continue to slow through 2008 because of several factors, including moderating job growth, continued challenges in the mortgage market, the impact of lower consumer confidence, and increased competition from the resale market, which in May saw sales decline for the 11th consecutive month.

Despite such declines, the median home sales price in the Austin area rose in May to \$196,120.

And the median sales price for new homes increased 3.5 percent to \$211,701 from the first quarter of this year.

"We're still an extraordinarily attractive place to live and do business," Heimsath said. "And if there is any strength in the national economy, and any bright spots in terms of growth potential, I think Austin is certainly going to be one of those."

Courtesy of JB Goodwin