

New home building in '06 sets Central Texas record

Starts drop in final quarter, but experts predict a healthy market during 2007.

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Builders started construction on a record number of homes in Central Texas in 2006 **but slowed the pace as the year drew to a close** as inventories rose slightly, new figures show.

But experts predict the supply of unsold homes to diminish by spring as 2007 shapes up to be another healthy, albeit slower, one for the local housing market.

Builders started 16,743 homes last year, a 10 percent increase from 2005, according to Residential Strategies Inc., a Dallas-based market research firm. There also were a record number of **closings, which jumped almost 23 percent from 2005 to 16,073.**

The median sales price of a new home in Central Texas rose 8 percent to \$196,443.

"Austin did not experience the massive run-up in housing values from 2001 to 2005 that was seen in several East and West Coast markets," said Mark Sprague, a partner in the Austin office of Residential Strategies. "As a result, housing values have not only held firm in Austin, they have climbed higher in 2006."

But the supply of new, unsold homes also climbed to a record level, prompting builders to start 10 percent fewer homes in the last three months of 2006 than the year-earlier period.

"While the Austin housing market remains robust, it has not been immune to some of the negative forces that have shaped the national housing picture," Sprague said.

Ted Wilson, a partner in Residential Strategies' Dallas office, said builders ended up with more unsold homes as the cancellation rate on pending contracts edged up in 2006.

Nationally, the cancellation rate climbed from 25 percent to 35 percent during the past year, Wilson said, and the Austin area experienced a similar increase.

Buyers are canceling contracts for various reasons. Weak credit is to blame for some cancellations for entry-level homes, and some contracts for higher-priced homes are being canceled by relocation buyers having difficulty selling their homes in slower markets elsewhere.

About 2,900 new homes sat on the market in Central Texas in December, just over a two-month supply.

Although Austin's levels of speculative homes — those started without a buyer lined up — are still acceptable and well below the supply seen elsewhere in the nation, the oversupply "will prompt many of the builders to offer deeper discounts and incentives," Sprague said.

Unlike other markets in the nation where prices and sales are cooling, Central Texas has bucked the trend with healthy job growth, a steady stream of newcomers and relatively affordable prices.

For the 12 months that ended in November, 24,800 jobs were created in the Austin area, according to the Texas Workforce Commission. Austin-based Angelou Economics predicts that the Austin area will add about 20,000 jobs and 40,000 residents next year, about as many as were added in 2006.

That's good news for builders, including California-based Newland Communities LLC.

Sales are brisk at the company's Teravista master-planned community in Round Rock.

"The job growth in the Austin area has certainly spurred sales here," said Rainer Ficken, Newland's project manager for the Austin area.

With more than 600 homes at Teravista completed and 150 more under construction, the company expects to have 3,500 built there by 2013. Home prices range from \$170,000 to \$500,000, and buyers run the gamut.

Ficken and Sprague said all signs point to continued healthy local housing demand in 2007.

Though Austin's new home market may stay strong, the level of activity will probably be below the record highs of 2006, said Eldon Rude, director of the Austin office of Metrostudy, a real estate research firm.

"That said, Austin will remain the envy of many housing markets around the U.S. that will continue to struggle with high inventory levels and falling pricing in 2007," Rude said.

Rude expects Central Texas' home starts to decline about 10 percent this year from the 2006 level for several reasons.

He thinks the large publicly traded builders — which have been looking to other divisions, including Texas, to be more profitable as markets have slowed elsewhere — will build fewer speculative homes in 2007 to bolster profit margins. He also expects the Austin market to attract fewer investor buyers than it did in the past year or two.

Rude also expects fewer people to move to Austin this year than last.

"This is especially true of the people that were relocating to the Austin area over the last two years or so without jobs, taking advantage of the huge increases in the values of their homes in other states," Rude said.

In predicting the demand for new homes in Austin during the next year, "the real wild card is the magnitude of the slowdown in the U.S. economy over the next 12 months," Rude said. "If the decline in the housing industry puts a stronger drain on the growth rate in the U.S. economy in the coming months, Austin will participate in this slowdown, and demand for homes in our market will reflect this downturn."

The steep slide in housing has been a significant factor in the economy's overall slowdown.

However, a better-than-expected 3.4 percent increase in sales of new single-family homes occurred in November. It was the fourth straight month of decline in the backlog of unsold homes as builders lured buyers with incentives.

That has caused some experts to predict that the slump in the national housing market might be coming to an end.

Courtesy of JB Goodwin