

As national housing market tumbles, how will Austin fare?

A look at what factors may spell trouble in the months ahead.

By [Shonda Novak and M.B. Taboada](#)
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Richard and Andrea Flinchbaugh are building a bigger home in Round Rock and are trying to sell their home in the Forest Creek subdivision. It has been on the market since May, and they've dropped the price from \$525,000 to \$450,000. They're getting worried that they'll be saddled with two mortgages, now that their new home is near completion.

An investor bought a home in January on Mesa Drive in Northwest Hills and sank a sizable sum into extensive remodeling before putting it on the market in June. It hasn't sold, and he's antsy. He recently cut the price by \$45,000 to \$930,000 and unfurled a giant banner that declares: "Owner says: Bring Me an Offer."

Across Central Texas, the number of homes for sale is growing and sales are slowing as national mortgage troubles begin to spread into the region's still-healthy market. In August, 9,819 existing homes were for sale, a four-year high, and sales were down 10 percent, the third monthly drop in a row. Sales of existing homes are expected to be down for the year for the first time since 2001.

But unlike many markets where sales have fallen, the majority of areas in Central Texas are still seeing higher median prices. Experts said part of the rise may be related to a steep slowdown in sales of entry-level homes and a higher concentration of sales at the upper end.

Real estate experts say it could take several months to determine whether the slowdown in Central Texas is temporary or will lead to a long-term decline.

"This is brand new. It hasn't played out yet," said Ed Solter, a broker with Presidential Mortgage. "This is just the tip of the iceberg. We would be naive to think that if states like California, Nevada, Florida and Michigan have the flu, or maybe worse, that we couldn't also catch the flu."

Predictions don't come easily, mainly because the Central Texas housing market is facing a complex set of issues, compounded by the national housing slump.

- The number of prospective entry-level buyers is dwindling as mortgage lenders tighten standards. The move comes after years of deals that allowed people with high-risk credit histories to get loans with little or no money down, but at high interest rates. That has led to rising defaults and foreclosures in many cities.

- Builders have cut back on starting new homes to keep inventory low and prices up. This has been a big factor in the national slowdown and has led to reductions in Central Texas, too. Austin has a relatively low supply of new housing and is not overbuilt like other markets. Even so, a report from Texas A&M University researchers last week suggested that the Texas new-home market could be stuck in a prolonged downturn unless builders cut back further on construction.

- The overwhelming negative news about other parts of the country is beginning to scare potential buyers even in such markets as Central Texas, where the fundamentals remain strong.

"The overall negative national news is impacting the (local) buyer's psychology," said Eldon Rude, Austin director of the real estate research firm Metrostudy. "It makes people more hesitant to buy now."

'Everything is sitting'

The Flinchbaughs thought their home would sell quickly. The house, on a quiet cul-de-sac in Forest Creek, has 4,700 square feet, four bedrooms, a large playroom, an office, hardwood floors and a three-car garage.

But with five children, the Flinchbaughs wanted a larger home. Their new house, in the Lake Forest subdivision across the street, has five bedrooms and 5,600 square feet and will be ready in two weeks.

Richard Flinchbaugh said the mortgage situation might be a factor in how long it's taking his home to sell. But there is also a large supply of new homes in the area, he said, making competition tougher for resales.

"In the last three or four years, people were going nuts with building and buying, and it's just finally slowing down. It had to slow down sometime," said Flinchbaugh, who works at Freescale Semiconductor Inc.

Local real estate agents are seeing the effects as well.

"Everything right now is sitting," said Michelle Perris, the broker/owner of Michelle Perris Real Estate who has the Mesa Drive listing. "There's a nervousness in the market. A lot of it is psychological. People may get scared when they hear what's going on in California or Florida, even though the economy here is strong. People think that the prices are going to go down, so they are waiting."

The owner of the Mesa Drive house renovated it from the top down, adding mesquite floors, a gourmet kitchen and an elegant master bathroom. Perris said she thinks the home is a bargain, especially if Austin prices continue to rise in 2008, as most forecasts suggest.

"Somebody's going to get a beautiful house for a great price," she said.

Uncertainty in market

Though Central Texas is faring better than many parts of the country, the reflection of the national picture is glaring in such subdivisions as Briarcreek in the Manor area.

Sales have fallen from 25 to 30 a month to about five, developer Dick Rathgeber said. Rathgeber said 70 lots remain in the development's first phase, which is about a year's supply at the current sales pace. Before the mortgage crisis, 70 lots would have been about a three-month supply, he said. So Rathgeber has put the next section, with 220 lots, on hold.

"We haven't gone ahead because of the uncertainty in the market," Rathgeber said. "All the big builders are hurting."

It could take six to eight months for the new-home market to adjust fully to a different market dynamic, said Charles Heimsath, president of Capitol Market Research.

"It's had an effect, but not nearly the effect (that it's had) on other markets around the country," Heimsath said. "As long as we don't have a national recession, I think we'll probably survive the subprime crisis in pretty good shape, (although) it will be slower this year. It's the new-home market that has had the greatest impact."

The figures tell the story. In the Austin area, home starts were down 23 percent in the 12 months that ended Sept. 30, compared with the year-ago period, according to Metrostudy. Rude predicts another 10 percent drop in home starts next year.

But statewide, building levels need to come down much more, according to a new study by the Real Estate Center at Texas A&M.

"If home building doesn't drop 25 percent from where it is now, the Texas home market could slow down for a longer period than we would like," said Mark Dotzour, an economist with the center. "The inventory of unsold homes is rising all over the state."

Financing trouble

The national troubles are also an issue for people trying to get a loan.

Once-popular financing options with no down payments are disappearing. Mortgage experts estimate that four out of 10 first-time buyers used such loans during the boom years. Many lenders want at least 5 percent down now.

"One hundred percent financing is much more difficult to obtain and can be a waste of time, 95 percent financing is better, 80 percent is great, and cash is king," said Paul Borman, an agent for Avalar at Steiner Ranch. "For the buyer, it is very important to be preapproved instead of just pre-qualified. Financing terms have certainly grown in importance in terms of the strength of the offer."

David Reed, president of CD Reed Mortgage Bankers in Austin, said the mortgage market hasn't tightened so much as "reverted back to earlier standards."

"Our industry got spoiled with all the 'no money down, no income' thing that consumers, I think, took it for granted, or that down payment and income requirements were a thing of the past," Reed said. "The fact is that there are loans being made every single day the old-fashioned way: with a job and a down payment."

Prices still climbing

As some loan programs vanish, the entry-level market is shrinking.

Existing home sales priced below \$200,000, which make up more than half of all sales in Central Texas, saw the sharpest decline in August, 16.7 percent compared with August 2006. Sales in the \$200,000 to \$400,000 range declined 7 percent.

Overall, sales of existing homes in August, usually one of the top-selling periods, fell more than 10 percent, the first decline for the month in five years. The slowdown could get worse. Pending sales for September were down 24 percent from 2006.

Home prices, however, continued to rise in August, with the median price up 6 percent from a year ago to \$192,200. Some neighborhoods saw price increases of 33 percent compared with August 2006. But some saw increases of much less. The East Round Rock area where the Flinchbaughs live rose 4.7 percent.

The higher-end market also is affected by the credit crunch.

Rates are jumping significantly for so-called jumbo mortgages, \$417,000 and above. Fannie Mae and Freddie Mac, the largest investors in U.S. mortgages, can guarantee loans for single-family homes up to that amount. The figure is determined by federal regulators who look at the average home price nationwide. Loans that exceed that limit have fallen out of favor with investors because they are considered riskier than lower-cost loans.

A prospective buyer of the Flinchbaugh home would probably not need a jumbo loan, assuming a 10 percent down payment. But a prospective buyer of the Mesa Drive home would have to get one, under the same assumption.

"This will obviously hurt people who are trying to buy a bigger home," Solter said. "The affordability will absolutely impact their buying power."

To date, sales of existing homes in Central Texas are relatively healthy, down 3 percent from 2006's record-breaking pace, but up 15 percent from 2005. And foreclosures are declining, unlike states like Michigan, Ohio and Indiana that are among the hardest-hit.

Still, more pain could be ahead on the Central Texas foreclosure front.

Although 2007 will have the lowest level of foreclosure postings in Travis and Williamson counties since 2002, "it does not change a trend that has been building for five years now," said George Roddy, president of Foreclosure Listing Service Inc., an Addison company that tracks foreclosures statewide.

"The foreclosure pace may be slowing in the Austin metro area, but the road is still very long." He noted that most postings for October were on loans originated in mid-2003. "So without even considering the subprime factor in this equation, a tremendous amount of financing and refinancing has taken place during the last four years. That's a strong indicator that we will continue to deal with this fallout for at least three to four more years in the Austin area, if not longer."

In Austin, no 'bubble'

Several factors have kept Austin's market resilient. Job growth is steady, and in August unemployment was at its lowest monthly rate in six years. Home prices have appreciated more slowly than in other markets. And builders have tried to keep inventories under control.

"Compared to the rest of the country, Austin looks very good," said D'Ann Petersen, an associate economist with the Dallas Federal Reserve Bank. "There probably will continue to be some slowdown, but as long as job growth remains solid in Austin, as it has so far this year, the effects of tighter lending standards in the mortgage market should not be as large as we've seen in other areas of the country."

Reed agrees that Central Texas is in an enviable position.

"We didn't experience a bubble. Home prices are still appreciating moderately, which means people still have 'move up' equity others in the country don't have, especially on the East and West coasts," said

Reed, an author and columnist for Realty Times and Mortgage Originator Magazine. "Our economy is still strong with job growth continuing for as long as we can see."

Nell Hurtado, an agent in JB Goodwin Co.'s Northwest Austin office, said there still seem to be plenty of mortgage companies offering competitive rates, "and people are still able to get a loan."

"The sky is not falling, not at all," Perris said. "I think that people will get over the national news, and they're going to be fine."

Courtesy of JB Goodwin