

Thursday, July 1, 2010

Austin area new home starts continued their upward trend in the Second Quarter, 2010. Builders initiated construction on 2,109 units during 2Q10 compared to 1,594 starts in 1Q10, a 32.3% increase in the start rate. This also represents a 10.8% increase over the same quarter a year ago (1,903 starts 2Q09). "The increased start activity continues to provide positive news for the Austin market" notes Tommy Tucker, Austin Division Manager for Residential Strategies. "The strengthening of the start activity that Austin witnessed in 1Q10 from the government's tax credit programs continued into April. Many builders are now focused on closing those units. However, with the expiration of the tax credit and a tepid economic recovery, many builders reported mixed results regarding buyer traffic and sales during May and June," says Tucker. "We remain hopeful that the Austin housing market can transition from one fueled by artificial demand (government stimulus) to one that is gaining strength in the Second Half of 2010 from real job growth."

The annual start rate (past four quarters) stands at 7,360 starts. The low point in the annual start rate occurred in 4Q09 at 6,786 starts.

The median new home price increased in 2Q10 to \$203,476, up 3% from 1Q10 (\$197,545). Tucker attributes the increase to more activity by the mid-tier priced home builders (\$200,000-400,000) than in past quarters. However, the median new home price is still off 4.27% from the same quarter a year ago (\$212,561).

As builders rushed to close houses for buyers wishing to take advantage of the tax credit, closings rebounded in 2Q10. Residential Strategies, Inc. observed 1,961 closings for the quarter compared to 1,615 in 1Q10, an increase of 21.4%. The annual closing rate edged higher to 7,553 units, representing the first quarterly increase (positive 168 closings over 1Q10) since 4Q08. The 2Q10 closings also represent a 9.4% increase over the same quarter a year ago (1,793 closings in 2Q09).

Total housing inventory increased to 4,304 units in 2Q10, a 4% increase over 1Q10 (4,156 units). According to Tucker, "While the tax credits enhanced new construction this spring, especially at the more affordable price points, we were pleased to hear from many builders that they were seeing buyers coming back into the housing market for reasons apart from the tax credit."

Finished vacant housing units (1,759 units) and models (430 units) were both lower compared to 1Q10 (1,881 and 453 units respectively). Notes Tucker, "Builders have shown discipline by not creating an over-supply of housing. The total housing inventory



represents a 6.9 month supply, where a 6.5 month supply is considered equilibrium. Because of this balance, Austin continues to maintain price stability in its housing markets.”

Homebuilders continued to work through lot inventories during the quarter. The number of vacant developed lots was reduced from 26,351 in 1Q10 to 25,088 in 2Q10. As a result, the months of supply represented by these finished lots similarly fell from 44.2 months to 40.9 months in 2Q10. RSI considers 24 months of supply to be equilibrium. Per Tucker, “The lot supply in the “A” locations is actually much tighter than the overall market numbers suggest. Many of the homebuilders that sell homes from \$200,000-400,000 are struggling to find replacement positions or even developable land in the more active submarkets.”

The Austin-San Marcos-Round Rock area continued a positive trend this quarter adding 4,000 jobs for the twelve-month period ended May, 2010 according to the Texas Workforce Commission. The Greater Austin area added 2,000 jobs alone in the month of May resulting in an unemployment rate of 6.9%. This 6.9% unemployment rate for the Austin-Round Rock-San Marcos area compares favorably with the state of Texas unemployment rate of 8.3% and the national unemployment rate of 9.7%.

According to the Texas A&M Real Estate Center, the Greater Austin-San Marcos area had 2,344 existing home sales in May 2010, an increase of 25% over May 2009 (1,874 sales). The annual rate of resales stands at 22,554, representing a 12.3% increase over the rate posted a year ago. At the end of May, 2010, the Austin-San Marcos area had 12,958 total listings, a 6.89 month supply.

Residential Strategies, Inc. is a Texas market research and consulting firm specializing in new home activity.

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