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Downtown Austin condo market slows down

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The downturn has hit downtown.

A global recession, shattered consumer confidence, frozen lending markets and stock market volatility have cooled the condominium boom that is reshaping Austin's skyline.

Developers of the sleek 360 condominium tower next to the Austin Music Hall have pushed back the timetable for starting another high-rise at West Sixth and Nueces streets.

"Any start is dependent on the capital markets next year," said Taylor Andrews, the local partner with Novare Group on the project, which would be a year into construction under the original schedule. Another tower, to replace the current post office, is several years away.

Sales at the four towers under construction — the Austonian, the Four Seasons Residences, Spring and W — have slowed to a crawl since the financial crisis exploded in August, although developers all say they have contracts for 45 percent or more of their units.

"In the last two months, what we've seen in other parts of the country for the last two years has finally gripped the psyche of Austin," said Devlin McNamara, a vice president with Bank of America Mortgage, a preferred lender on many of the projects. "Everyone's so blown away by the volatility and uncertainty in the markets that they're hesitant to pull the trigger on anything at this point. ... They're mulling it over in their heads but won't actually commit to anything."

The slowdown is the first break in a wave of residential development that has brought hundreds of new condominiums and apartments and several thousand new residents downtown in the past several years.

That development has helped attract new retailers and restaurants and advanced the city's goal of creating a 24-hour urban core, where people could live, shop and be entertained as well as work.

In recent years, announcements of bold new projects seemed to come every month. But with the credit crunch, no new project has been announced this year.

Charles Heimsath, a real estate consultant on virtually all downtown projects, said his phone isn't ringing these days.

The slower downtown market reflects overall conditions in Austin's housing market, Heimsath said, "and I don't expect the market to pick up until the second quarter of 2009."

Nationally, tightened credit requirements have made it harder for many people to get mortgages, including the so-called jumbo loans needed to buy the higher-priced units in projects such as the 56-story Austonian luxury condominium being built on Congress Avenue and Second Street or the 32-story Four Seasons Residences, going up adjacent to the hotel.

Even if buyers can obtain financing, there's a hitch: "They've got to sell something on the back end to buy something new, and they can't unload their current property" because of the slumping housing market, McNamara said.

Sales of pre-owned homes in Central Texas have fallen for 16 months in a row.

Is market overbuilt?

Skeptics have warned for months that the downtown condominium market was overbuilt, and they say sales and prices are poised for double-digit percentage drops in the coming months.

Some real estate experts and developers of the four projects disagree, noting that three of the projects won't be completed until 2010 or 2011. By that time, the hope is that the economy will have rebounded.

Because the high-rises are so visible, "the misconception of the casual observer is that downtown is or will be overbuilt," said Brett Denton of Ardent Residential, developer of the Four Seasons Residences. "The reality is that the various projects in and around downtown are being delivered at staggered schedules and price points."

Nearly half of the Four Seasons' 166 units are under contract, Denton said.

There are binding contracts, with nonrefundable earnest money, for about 45 percent of the 159 condos that will be built as part of the 36-story W Austin Hotel and Residences north of City Hall, said Beau Armstrong, chief executive of developer Stratus Properties Inc.

More than half of the 246 units at Spring, under construction at West Third and Bowie streets, are under contract, said Larry Warshaw, one of the developers.

When Spring is finished next summer, "it will be the only building where someone can buy a high-end condo in a high-rise in downtown Austin for eight to 10 months — the only one," Warshaw said.

But for now, Warshaw acknowledges, "most people are window-shopping and not signing contracts."

Rents dropping on older units

At some older downtown projects, sellers have adjusted to the slowing market by cutting prices.

Last month, a "close-out" unit in the 5 Fifty Five luxury condos atop the Hilton Austin sold for \$700,000, \$85,000 off its original list price. In August, a resale unit there sold for \$795,000, \$80,000 less than its original price, according to real estate data.

In May, a unit in the Austin City Lofts went for \$530,000, \$45,000 less than its asking price.

Eric Winkler, owner of E.J. Winkler Realty Co., said buyers "definitely have the edge in this market." He noted that in a down market, more people could opt to rent, and there are plenty of new apartments coming on the market.

In July, Mike Kennedy and his wife moved from their home of 23 years in Northwest Hills and into the 29-story Monarch apartment building on West Fifth Street.

Kennedy said they might ultimately buy a condominium but are taking a wait-and-see approach.

"We'll continue to monitor the market," said Kennedy, president of Commercial Texas commercial brokerage firm.

Although he wouldn't disclose his rent, Kennedy said he's already seeing some reductions, including in his building.

"We thought we got a good deal when we moved in," Kennedy said. "If we were moving in today, we would get a better deal."

Some work on hold until...

Novare Group had been poised to become the biggest downtown condo developer, with a total of more than 1,300 units in its 360 tower and its two others.

At 360, which opened over the summer, sales have closed on 391 units, and most buyers have moved in, Andrews said.

He said 20 units came back on the market when buyers could not get financing. He said new buyers have stepped in, including for two of the penthouses.

But work has yet to start on the next tower, Ovation, planned for West Sixth and Nueces streets, and Novare is eyeing a 2010 or 2011 start for the tower planned for the post office site.

The 34-story 7Rio project at Seventh and Rio Grande streets is on hold indefinitely.

Ron Cibulka, a partner with CLB, wouldn't venture a guess as to when it might break ground.

"It's all going to come back to the credit markets and how the Austin economy is responding to what's happening in the national economy," he said.

Tom Stacy, who hired noted architectural firm Pelli Clarke Pelli to design two striking towers on Congress Avenue, said the credit freeze has delayed the first phase, a parking garage.

"We will start the garage as soon as the capital markets return to some state of normalcy," he said.

If mortgage interest rates decline, that could help spur condo sales, experts said.

"In 2009, I see rates falling into the low- to mid-5-percent range and staying there throughout the rest of the year," said David Reed, president of CD Reed Mortgage Bankers. "Lower monthly payments will always help a slowing market."

Said Heimsath: "I'm not saying we'll flood the market with contracts, but things will pick up again."