hanley wood
BigBuilder ONLINE

Print Page

Local Intel: Rocky Mountain Highs and Lows

Denver denizens love its outdoor offerings, struggle to find affordable homes and new job opportunities.

Source: BIG BUILDER Magazine
Publication date: 2007-03-15

By Judi Hasson

Nestled in the foothills of the majestic Rocky Mountains and blessed with an average of 300 days of sunshine a year, Denver has long capitalized on its natural outdoors lifestyle. And boomers, eyeing the region as a potential retirement haven that still offers four distinct seasons, have flocked to the region, making Denver the baby boom capital of the United States, according to the city's own demographic analysis.

Denver's housing market is idiosyncratic, says Dan Jester, an economist at Moody's Economy.com. "It never went through the big cycles [and] is holding up because it is small."

While the Mile High City doesn't have the big housing numbers like Phoenix or Las Vegas, it has seen down cycles–in 2000, when the tech sector spiraled downward, and again in 2006, as the housing market faltered. But upbeat signs have cropped up to indicate it's a temporary lull and Denver should start growing again.

Courtesy Denver Metro Convention And Visitors Bureau

PEAKS AND VALLEYS: Denver job market took a huge hit in 2000, when the tech bubble burst, but the Mile High City is gradually adding back the lost jobs.

One sign is the light-rail system that is being built throughout the region, a move that is projected to be a boom for many builders looking to create new homes in Denver's many development pockets adjacent to the rail line, such as Lone Tree and Aurora, Colo. Ultimately, the rail line is estimated to bring new housing to the region, some estimates are between 250,000 and 350,000 new homes.

"The light rail will generate more [home building] and a better test of how it can change the development over the next 10 years," says Mike Rinner, vice president of the Genesis Group, a Denver-based housing market research company. "There will be probably 50 to 70 potential transit-oriented development locations; it's the greatest opportunity we have."

Rinner says Denver needs a few healthy economic quarters to get rid of the large inventory and to deal with its high foreclosure rate, which is one of the largest in the country thanks to a poor regulatory structure to protect consumers, as well as the use of interest-only loans and adjustable rate mortgages.

"The story right now in Denver is foreclosures–people got into homes they cannot afford," Rinner says.

Market Woes

While there is plenty of energy in Denver and lots of potential home buyers, economists still see a bleak time for the region until it shakes out of the downturn.

Courtesy Shea Homes

PRAIRIE HOME COMPANION: At Shea Homes' Reunion, buyers have a choice of six elevations, including the High Prairie model, priced from the mid-$200,000s.

Patty Silverstein, president of Development Research Partners, a real estate and economic research development company, says the prices on single-family homes have been growing about 3 percent while condo prices have been declining. "The development community has been responding to slower home activity in construction," Silverstein says. "There has not been huge declines in the market value, but just enough to make us pause. We may need to hold off and let demand catch up to single-family attached and condo attached homes."

Other experts say Denver is coming back gradually rather than dramatically. When the tech sector fell in 2000, Denver lost about 100,000 jobs, and it has taken the last few years to get them back, according to Marilee Utter, president of Citiventure Associates, a Denver-based consulting company on mixed-use and transit. "Now we've absorbed the jobs, and we're back. There's lots of infrastructure investment. Our job growth is over 2 percent, higher than the national average," Utter says.

"I think we have at least another year of difficulty," says Tucker Hart Adams, chief economist for the Rocky Mountain region for U.S. Bank. "There are two pieces of good news. This is the third year housing permits are down, and we have not created the excess of new homes that some parts of country have."
Community Ties

Jeff Kappes, Shea Homes' division vice president for the Denver region, likes to think his company has what it takes to sell homes here. And that, he says, means more than just building a nice house.

Shea has been working in Denver for 26 years, and its communities include Reunion in Commerce City, Colo., and Highlands Ranch which is in Douglas County. "We are really trying to emphasize that we are providing a community appeal that is different than what many of our competitors are applying," he says.

Pulte Homes is building new communities, too. At Anthem, northwest of the city in Broomfield, Colo., one typical sales magnet is conspicuously missing. Pulte decided not to build a golf course at the development because of Coloradoans' preference for undeveloped land, plus Anthem residents can simply walk across the street and join a club at another development, says Tony Barbee, Pulte's Denver president.

Eric Wittenberg, president and CEO of Boulder, Colo.–based McStain Neighborhoods, says he is approaching the Denver market with cautious optimism, expecting a decent 2007 and a better 2008. "In general what works are the best locations," Wittenberg says. "It's really a micro market versus a macro market. … If I had to generalize, I would tell you fringe and suburban areas are feeling much more pain than the close-in or infill sites."

McStain is one of the 18 to 20 builders developing homes at Stapleton, the redevelopment of the former airport project led by Forest City Enterprises. According to stapletondenver.com, nearly 6,800 residents are already calling Stapleton home, and officials expect that number will grow to 8,000 residents by the fall. John Laing Homes also is building at Stapleton.

While there are plenty of signs that Denver will be coming back, economists say the Denver market is neither overheated nor contracted, and it will take a few seasons to stabilize. The region is expected to perform well in the next few years. But it will still take a magic formula to get it back to normal. Hanley Wood Market Intelligence predicts that the median price of an existing home is expected to gain 4 percent in 2007.

CLICK HERE TO SEE CHART

Fast Facts

- Population: 2,402,800
- Job growth: 1.4%
- Permits: 14,865, as of 3Q06 (down 0.1%)
- Closings: 15,636, as of 3Q06 (down 16.5%)
- Cancellation rate: 21.4 %
- Total inventory: 50,077, as of 3Q06 (up 23.3 %)
- Median single-family home price: $304,990

<i>–Judi Hasson</i>

Austin City Limitless

Land dealers in Texas' capital city go on dealing, even as the rest of the country puts growth on hold.

Courtesy Austin Metro Convention and Visitors Bureau

SOUTH BY SOUTHWEST: Austin is home to the state capital and a world renown music scene. The vibrant atmosphere is drawing in a large number of new residents.

Only a city with incredible confidence could boast a local motto like "Keep Austin Weird" to celebrate the differences between itself and other cities across the country. Yet, that's the tag that local residents have proudly coined to promote the diversity, eccentricity, and unique spirit that resides in the dynamic environment of Austin, Texas.

Even when it comes to housing, don't expect the Austin market to become more like the national average anytime soon. In fact, a number of market experts contend that the market will maintain its bellwether status for the foreseeable future–and even into the next three to five years.

How? None of the dynamics are in place to send the market into a downturn: There are restrictions to growth, a lack of supply, moderate price increases that are attractive to builders, and there is a rare stratification of supply across all product types.

Perhaps a key factor is the town's zealous efforts to restrict growth and its diligence about measuring growth through a combination of smart municipal planning and a sophisticated contingent of lobbyists and no-growth groups that have squelched the large-scale community component of the housing market.

Given the growth and supply issues at play, as well as the slow appreciation rates, Austin is likely to continue to find itself in a somewhat perpetual undersupply situation.

The Austin Appeal

After the tech bust in the early 2000s, a strong employment sector has evolved, many jobs are at Austin-based companies.

Courtesy D.R. Horton

HILL COUNTRY: Avery Ranch Parkside is one of the few large master planned communities found in the Austin area. D.R. Horton's Magee plan starts in the low $340,000s.

Not only does the town support a base of higher-than-average paying jobs, the in-migration from higher priced feeder markets like California and the East Coast is bringing money to town. "People are moving here for the Austin appeal," says a local Realtor. "The appeal of the market is how similar it is to some other sections of the country, but more affordable."

With that influx of wealth, comes a demand for product that's not so significant in other Texas markets: luxury. In Travis County, nearly 3,000 homes are appraised at $1 million or more. In the past year, sales of houses priced $1 million or more shot up 71 percent. In fact, in 1996, only two homes in the county sold for over $1 million. Yet 10 years later, in 2006, that number had skyrocketed to 275 homes.

Of course, there is still a market for lower-end homes. But what adds to the dynamics of the Austin market is that product is selling for $150,000 and also for $1 million, with interest in almost everything in between. If you were to segment both demand and supply by price range, it is clear that there is some demand across the board.

Positive Due Diligence

In early November 2006, a family landowner group contacted Phoenix-based Land Advisors Organization to take a 1,500 acre property in the Austin area to market for potential residential development.

Given the home building climate, Steve La Terra, director of home builder services at Land Advisors, was skeptical about taking it on. Yet, La Terra's due diligence made a clear case for demand in Austin. And he had a gut instinct about the parcel. After all, Texas's new-home market pace contrasted with that of the nation at large, and the Austin market appeared to be the star of the state, boasting great elevations, a temperate climate, a strong economy, and a stable housing market.

Land Advisors presented the property to about 30 potential buyers and quickly received eight offers. By February, they were working on negotiating the fine points of a contract with a letter of intent in hand.

"They were really good offers," says La Terra. "Not low-ball, we-are-testing-the-waters-and-maybe-something-will-stick offers. These were offers that were calculated. You could tell, developers had put pencil to paper and thought through. They determined the residual value, decided what they could afford to pay and presented the structure they hoped to be able to pay it in."

"It's indicative of the demand out there. Properties 1,500 acre size, there just aren't many of them in the metro Austin area. If a developer or builder wants an opportunity to put some production or semi-custom homes in the ground to satisfy the overwhelming demand, they are going to jump at it. That's what we found," says La Terra.

Shake it Up

Austin's edge is hardly limited to its newfound suburban appeal. In fact, look down the checklist of requirements for a vibrant urban environment and you'll find that downtown Austin has them all: it's the central business district, the entertainment hub, the primary tourist destination, and the home to city, county, and state governmental activities. But despite all the things that are going right, the downtown is struggling a bit under the weight of all its responsibilities. Today, it's in a state of transition.

By advancing one sector at the detriment of the other, the savvy city council recognized the development pattern would create an imbalance. So last August, it issued a Request For Qualifications seeking a "consultant with extensive experience in urban downtown planning and financial modeling, to assist the city and the community in the creation of a vision for the development of downtown Austin for the next 20 years, and to develop an implemental strategy to achieve that vision."

In October 2006, the City Council named a consultant team led by ROMA Design Group, the interdisciplinary company of architects, landscape architects, and planners based in San Francisco, to head this initiative.

Measure of a City

Flash forward several years, and according to indicators, Austin is likely to remain one of the strongest markets in the country.

Factor in that the current state of the market is undersupplied, there is strong growth–both population and economic, home prices are appreciating at about 8 percent to 10 percent per year, which, these days, looks pretty attractive to builders in most any market, but especially so in comparison to the 3 to 5 percent rates that builders in other Texas markets have come to expect. As a result there is a tremendous amount of demand for the development and the home building communities.

But with the growth restrictions in place and the market's notorious difficulty for obtaining entitlements, it's likely that the supply part of the equation will continue to come in at a very measured pace.

CLICK HERE TO SEE CHART

Fast Facts

- Population: 1,506,000
- Job growth: 2.7%
- Unemployment rate: 3.8%
- Permits: 18,844, as of Q306 (up 20.1%)
- Starts: 17,782, as of Q406
- Closings: 16,560, as of Q406
- Affordability ratio: 56.0%
- Median existing home price: $175,500

<i>–Lisa Marquis Jackson</i>