

# The Future of Single Family Land Development and Home Building Austin, Texas 2010

Late Backup



*Building Central Texas Communities ... One Home at a Time.*



**The Future of Single Family  
Land Development  
and  
Home Building  
Austin, Texas  
2010**

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## Acknowledgements

This project was only possible through the willingness of the major builders of the Home Builders Association (HBA) of Greater Austin in this area market to come together and share their thoughts and experience. It is not possible to put a price on the value of that cumulative knowledge.

The idea for the focus group was conceived by Pete Dwyer, Dwyer Realty Companies. He supported the HBA's desire to expand the focus group to include a publication that all of the HBA's developer members as well as local government officials and staff can utilize as a resource.

Past HBA President Wes Peoples facilitated and provided direction and support throughout the project. As a facilitator, Paul Linehan with Land Strategies brought with his drawings the ability for the builders in the room to focus on alternative strategies. Gary Wagner and Donovan Davis with Danze Davis Architects helped with facilitation and planning. Michelle Burch of Dwyer Realty Companies was also instrumental in making this project a success.

Finally, the HBA membership deserves more than a tip of the hat for supporting an aggressive research and advocacy arm of their progressive, far sighted organization.

## Executive Summary

How can the Austin region keep up with an affordable housing supply in a market *fraught with construction and development difficulties*? Key representatives from nearly a dozen of Austin's most well known production home building firms explored how to get future housing subdivision projects done in a restricted lending environment.

The focus group covered a gauntlet of issues affecting the way homebuyers attitudes have changed the way they want to live today. Exploring priority shifts in consumers viewpoints on social, environmental and economic conditions, the group sought to address the shrinking supply of capital and restricted ability to fund new lot acquisition.

In order to function efficiently, the home builder representatives said their companies needed to keep 18 to 24 months of lot supply in front of their building crews with either developed lots or subdivision plans which are approved and able to be quickly constructed.

One of the most vetted topics of discussion was the New Urbanism style of development, with the general sentiment being that whether New Urbanism, Mixed Use or Traditional Neighborhood Design, demand for those projects will be limited.

The center point of the discussion was seeking ways to obtain the funding to develop lots at all. The market will see the lot supply constrict due to the loss of traditional land development supply-side economics and the loss of funding sources. Builders are motivated to become engaged in early stage community design driven by their consumer's market tastes and demands.

Entry-level, first time homebuyers are looking for value. An increase of even \$100 per month in monthly mortgage payments can mean the difference of being able to purchase a home or not.

The builders noted that only 30 percent of all houses built will be more expensive than the \$175,000 range average price that most Central Texas buyers would be able to afford. That probably will mean that most development will be east of Interstate-35 in the State Highway 130 corridor.

Builders and developers will encounter difficulty doing large scale land development due to *capital constraints*. Before new lot development will take place, there will likely have to be firm agreements between builders, bankers and developers. Those agreements will require much higher capital equity ratios and firm contracts with builders to take down the lots after development. There will be little room for permitting delays.

Large and costly amenities like swim and athletic centers, golf courses and major infrastructure will give way to softer, greener amenities like greenbelts and pocket parks which are more in demand with consumers in today's marketplace. Well located land with access to utilities will be crucial.

# The Future of Single Family Land Development and Home Building in 2010

## Introduction

In October 2009, *Builder Online* cited the Austin metropolitan area as the nation's healthiest home building market. The five-county region is also in the unusual position of not having an excessive lot supply. However, capital for developing single-family home lots will likely be an extreme challenge in the immediate future since bank funding sources and traditional methods for land development are strained - likely forcing significant changes to development fundamentals. The Austin region could likely face a dramatic lot shortfall of affordable housing lots as early as 2010 and beyond.

On October 14, 2009, the Home Builders Association (HBA) of Greater Austin convened a focus group of local production builders to assess single-family housing demand for new lot inventory over the next two to five years. These companies (private, public and start up companies) represented 52 percent of the production homes constructed in the five-county housing market in 2008 (Attachment I). Other supporting experts in the room included investment bankers, a land planner, an architect, a subdivision construction general contractor and two land developers.

The goals of the session included the opportunity for builders to (1) clearly advise the development community of needs or demands from buyers; (2) share concerns on how financing will affect their business, and (3) provide information to guide public policy decisions regarding the type of products builders are trying to construct and why.

Issues discussed include the following:

- Old Versus New Paradigm in Building
- Master Subdivision Plans: What Is a Viable Model?
- Builders Define Affordable Housing, Its Characteristics
- Developer to Builder to Landowner Relationships
- Amenities
- The New Reality: What Will Be Required to Build Communities for Families?

## Old Versus New Paradigm

The focus group started the session by defining some assumptions to frame the discussion. The first step was to establish a definition to use for "entry level" homes. Builders work off of a "rule of thumb" on the ratio of lot cost to home price; so the next step was to verify the ratios. Once the assumptions on pricing and ratios were established, location and type of lots become determinant in locations for likely new product. The rest of the assumptions attempted to define the business model for future development.

The first topic vetted was the "Old Versus New Paradigm" in subdivision development and new home building.

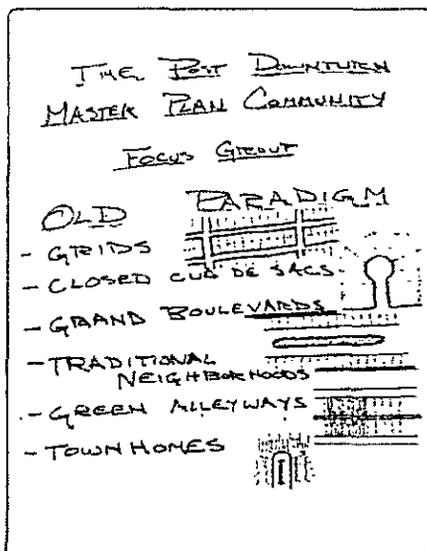
### New Paradigm

The builders noted that many local governments believe consumer demand has shifted to what is progressive in architecture and land design. The result is a perceived need for a new style of development.

New concepts incorporate affordable and "green". New and popular developments are mixed uses (like the Mueller Redevelopment). However, the group was unaware of any project in the region that was mixed use, profitable and whose development costs were not subsidized. Mueller Redevelopment, generally considered the most successful project in south central Texas, was also the most heavily subsidized.

While many of the local governments wish to "drive" new urbanism concepts, builders without exception, saw consumer preference for new urbanism product as extremely limited.

- NEW PARADIGM
- AFFORDABLE/GREEN
  - SUPER EFFICIENT
  - PROFITABLE/SUBSIDIZE?
  - URBAN IS O.K./ROW HOUSING
  - MIX OF RESIDENTIAL TYPES
  - IS NEW-SMALLER?
  - "STREAMLINE" AGAIN  
CITY RULES, REGULATIONS  
POLICIES AND ISSUES



### Old Paradigm

The "Old Paradigm" produced lots with master planned communities, grid systems, preferences for cul-de-sac lots, grand boulevards and density achieved through townhouses or multifamily complexes. However, most of the discussion focused on alternative ways to implement development and construction under the "old paradigm." After experimenting for

a number of years with a wide range of projects under the "New Paradigm," the builders were uniform in their perception that demand for this type of housing was limited. They believe it is largely driven recent by either location or pent up demand that had been building for a generation.

#### "New Paradigm" Affecting the Regulatory Process

One of the builder/developers in the room had experience with a private greenfield new urbanism project. From a corporate perspective, the project was considered a failure since houses were not selling well in the development. New urbanism founding father Andres Duany visited the project to provide advice. Curiously, the issues cited by Duany as causes for less than successful results all pointed back to mandatory municipal regulations such as large enough street widths required by fire officials.

#### **Master Subdivision Plans**

The group then discussed the viability of various master subdivision plans.

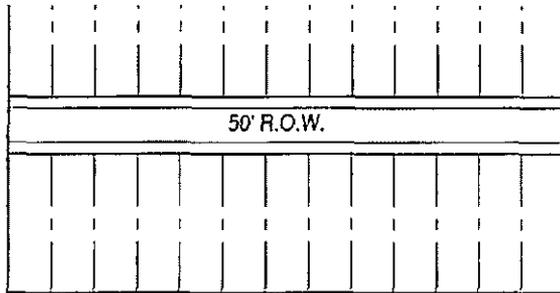
#### Grid

A municipality's impervious cover regulations greatly affect a home's lot size. However, all agreed that a product mix in a conventional grid development met their projected needs. Are there ideal lot sizes to deliver? The group uniformly agreed that lots should be differentiated in even tens of feet (40s, 50s, 60s by section). Also, all agreed that virtually no customers were willing to pay the "up charge" for a 70s and 80s lots. The group also agreed that the absorption rate cannot be accurately projected so development plans should allow flexibility in future sections.

What most aggravated the builders with third party development was a failure by the developer to recognize how many lots and lot sizes could be absorbed in a community without "cannibalizing" the project. When a developer is in a rush to close out a development, he may sell lots at a rate faster than the market can reasonably absorb. To compete, the builders in the project sell so aggressively that they may even do so at a loss, hence, destroying themselves and the long term viability of the project. More builders in a project do not make it better. For example, if you want to have three builders, have ample lots in projected inventory sufficient to meet each of the company's demands over the projected development time frame. Similarly, do not overdevelop or oversell one type of product.

A challenge in providing affordable housing and lower priced lots is that the fixed costs associated with development are not proportional. A smaller lot often has the same tap fees, the same design costs, the same regulatory fees and the same amount of processing. Moderate square foot homes are a better value, subsidized on the small end (especially where interest rates are today). Buyers are generally not paying for bigger lots when they can get what they want in the smallest lots.

Combining population segments to sell "aging in place" is a potential new market.



65 lots @ 8.34 lots/ac.

w/o Detention, Amenities, or Major Access Roads

Builders discussed expanding neighborhoods by age (not age restricted). One idea is to plan for a cluster development with 1,000 homes that includes apartments or town homes for older parents to be near their grown children. For example, Avery Ranch has the "Greens" bought by older folks whose children and grandchildren live in Avery Ranch.

Traditional Neighborhood Design  
Builders had several observations

about Traditional Neighborhood Design (TND).

On 60 front foot lots, a builder can develop lots less deep and pull the home closer to streets with smaller setbacks to get the TND feel. The square footage of land needed can be kept constant with more width and less depth.

Alleys are generally considered a critical component of TND development. They can be achieved with 50 by 120 lots and protect the perceived "openness" of the community. Uniformly the response from builders was that (a) people don't want alleys, but prefer a big backyard, (b) alleys are expensive to develop, and (c) alleys demand garages that are costly to build.

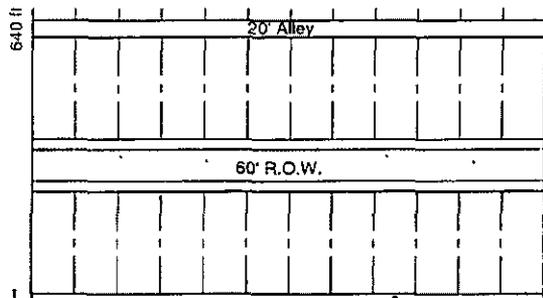
Alleys were once the norm in Dallas but now the garages are front entry due since alleys add to house cost. The Mueller Redevelopment has 75% impervious cover on lots despite alleys so it is challenging to build an affordable house with an alley, too.

Carriage house construction is a challenge at some TNDs. Do people want to be landlords? The model has not proven great demand. The carriage unit is extremely expensive to build and the most common sale of that type of unit has been for middle-aged couples wanting detached living for aging parents or older children.

The builders were familiar with TND designs and concepts and all had practical experience building in TND communities; but none thought of the approach as sustainable for anything beyond a market niche. Alleys were too costly and there are generally regulatory barriers to the more innovative applications.

New Urbanism / Mixed Use

Too often, New Urbanism is in the wrong location with developers spending too much on land. For builders, New Urbanism can't compete



48 lots @ 5.45 lots/ac.

w/o Detention, Amenities, or Major Access Roads

with construction costs of traditional home building.

Greenfield New Urbanism (development in suburban areas) seems even more challenging. All considered New Urbanism projects to be "slow sellers" compared to other conventional subdivisions.

The Mueller Redevelopment is the most progressive of the New Urbanism applications. Because of its location the project was able to introduce true mixed use and mixed priced housing products. Typical single-family construction is \$350,000 for a 1,900 sq. ft. home. Some builders observed that the heavily subsidized project is probably only possible with the City of Austin putting in very high dollar retail land at no cost to the developer. Even with free land, the retail land segment was needed to make the project "work". *Retail in less urban lower traffic areas has not proven successful in competing with large retail and "big box" centers.*

The regional demand for New Urbanism and Mixed Use projects, particularly for first time buyers, is not well established. It is clear that the Mueller Redevelopment, for example, was able to achieve great success because of superior amenities, marketing, location and pent up demand for mixed use living; but the level to which that can be sustained without subsidies is not considered proven to the building community.

A southern development, Plum Creek, was cited as a New Urbanism project that many consider successful. All of the builders had pulled out of the development since price drives demand and builders who had been active there claimed they could not make a profit. Some builders explained that people buying in Plum Creek can buy more expensive homes and will not buy in other parts of Kyle. It was also suggested that the land was family owned (not a public-held company), so the family can afford to develop the land as a legacy project.

Bottom line, developing New Urbanism is absolutely about lot costs; only after assessing that factor can you look at amenities.

### ***Builders Define Affordable Housing, Its Characteristics***

Affordable housing means different things to different people. For some, it means rent or price restrictions. Others define "affordable" as housing that costs no more than 30 percent of a household's monthly income. These home builders say it means single-family or duplex homes affordable for entry-level buyers. *Builders estimate that building starts on homes price more than \$175,000 are only about 30% of the market.*

So how much can family who is a first time buyer pay for a home in our region?

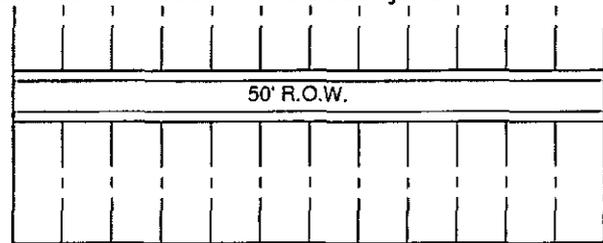
### **Entry-level Housing Defined**

Defining entry-level housing for the region is a challenge. Even median income calculations differ from the City of Austin to the US Department of Housing and Urban Development (HUD). Going into the focus group, the HBA prepared a "Median Family

Income Analysis” to determine housing affordability. The HUD guidelines limiting the maximum amount of disposable income to thirty percent of household income established the upper parameters. Using local assumptions to establish a range, it was projected that entry-level housing could range from \$160,000 to as high as \$230,000:

- $\$64,726 \text{ to } 73,300 \times 30\% = \$1,727/\text{mo} = \$160,000 \text{ to } \$230,000$  Maximum Home Price (see Attachment II)

However, in actual practice, the builders said the pure analysis could not be used because families purchasing a home rarely had little or no outstanding debt (e.g., credit cards). Therefore, the group advised that the qualification ratios were usually not the standards that affect the builder's ability to “sell” a house because of other limiting factors that almost always exist. Therefore, the lowest range of median was better to use than the high range.



60 lots @ 7.51 lots/ac.

w/o Detention, Amenities, or Major Access Roads

The bottom line: it is about the monthly payment, not the sales price. For example, a typical entry-level buyer has \$1,500 in his checking account

and is paying \$1,000 for rent. The potential buyer arrives at the model home asking “What kind of house can I buy when I have \$900-\$1,000 for a monthly payment?” The builder can add \$200 for tax benefits (\$1,100 house payment for \$900 renter). That will translate to \$125,000-\$175,000 for housing in the City of Austin.

Some builders said it is common for families with annual incomes of \$57,000 per year to seek home ownership. To achieve home ownership, some families with less income tend to move further from the urban cores where land and regulatory barriers are less expensive. The target market area for that demographic may be a home price as low as a \$90,000. In all of the markets for entry-level buyers, the builders said the federal tax credit was a significant factor in attracting and motivating new home buyers.

#### Entry-level Homes and Transportation

There are arguments for new urbanism that transportation savings can often offset the higher costs of infill or more urban development. The focus group observations were that the vast majority of people need a car to visit grocery store, shopping, kids' events, health care, etc. Most buyers do not accept transportation cost as a valid line of reasoning. Buyers generally recognize that more affordable product often requires longer commutes, though the lack of grocery shopping can often be an important concern.

#### Higher Income Entry-level Buyers

A number of the builders construct “move up” housing (homes targeted and second/third time buyers looking for a larger, more expensive house than their first one).

Some of these builders' clients are families with higher incomes buying their first home. For higher end communities, the biggest share of the market is first time buyers/no kids, buying a smaller product. There is more pressure in this segment of the market since the move up buyer has "gone in the cave" due to losing value in stock market, etc.

Lot Cost as Determinant of Affordable Housing

In the past, a "rule of thumb" had been that the ratio of lot cost to total price of housing should be five-to-one. If that was the case, lot pricing under the assumed income ratios could have been between \$32,000 and \$46,000. For the more "real world," the group determined the lot price under the more typical ratios, inclusive of other the buyer's other debt, would be between \$25,000 and \$35,000.

The cause is that the price of a lot to the builder is only a portion of the cost. Permitting fees, tap fees, amenity costs, developer advertising fees and carrying costs are all part of the land costs. As a result, the ratio may change to 5.5-to-one or 18% of total price. The five-to-one ratio only holds in a very healthy market.

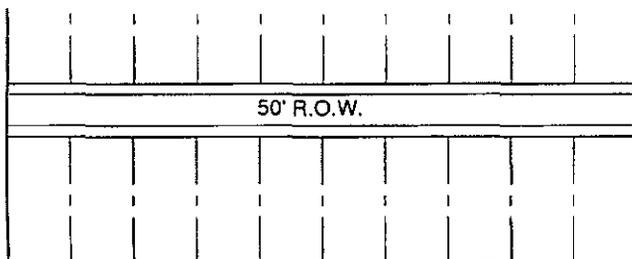
Calculation of what would be defined as affordable, therefore, would vary greatly depending on the supplemental costs assessed by a developer or municipality.

Location of Affordable Lots

Due to the cost of land and the regulatory issues in building west of the MoPac Expressway, builders expected most future development of any scale to be east of Interstate Highway (IH) 35. San Marcos, Kyle, Buda, Manor, Elgin, Hutto and Taylor were all identified as future possible growth markets. Limited opportunities for move up or second time home owners exist.

Builders felt affordable housing could be built in Round Rock only if the land was vested a long time ago. Leander had been considered an area where affordable housing could be produced. However, builders observed that the architectural and development standards, even after being "rolled back" added cost to the house. Beyond Leander, Liberty Hill may develop as a viable market.

Developers must also consider costs associated with topography that can affect residential building costs.



**50 lots @ 6.26 lots/ac.**

w/o Detention, Amenities, or Major Access Roads

With those possible exceptions, the western markets are only expected to be accessible for housing priced over \$500,000. Move up buyers still do not want to be east of IH 35.

Eastside concerns include the lack of retail and utility infrastructure as well as performance of school

districts. Despite the construction of State Highway (SH) 130, eastern portions of the region suffer from inadequate transportation infrastructure. For middle-income families, the cost of a regular commute using tolls is too expensive. Advantages include the fact that it is a lot easier to develop on the east side.

The Mueller Redevelopment appears to prove that a percentage of buyers are strongly motivated by a superior location. A number of the builders said they had done well with inner city projects and that people will trade amenities for proximity to the core city.

### **Developer to Builder to Landowner Relationships**

In the past, many of the publicly-traded home building companies have developed their own lots. For one builder, it was as much as 93% of the company's lots. Builders (privately owned and publicly traded) commonly purchased lots and land from third party developers. The forecast for the future? Those firms that did not develop will not change their business formula. On the other hand, some of the largest production builders are now purchasing as much as 50% of their lot needs, primarily since discounted lots are readily available. Over the next five years, projections are that the ratios will likely stabilize with 75% of lot inventory self-developed for the corporate builder/developer

The big challenge for third party land developers will be the lack of conventional financing, especially from banks.

### "Take Down" & Contract Observations

On average, builders were willing to acquire seven/eight months worth of inventory for self development per commitment. For larger production builders, that number is in 40-50 lot range. Smaller volume builders are looking at 35-40 lots over an 18 to 20 month commitment period.

Lenders have become major determiners of how lot purchase contracts will be structured. Presently, banks are looking almost exclusively at the strength of the developer, the equity in the project and builder commitments. The perceived "strength" of the builder does not seem paramount. The builders responded they were not interested in providing the equity for a third party. All recognize that developer financing is going to continue to be very tough to acquire due to (1) challenges with national residential construction trends, and (2) banks continuing to consider real estate development loans as a high risk loan discouraged by federal regulatory bodies.

The projected opportunity for builders in the future include smaller sections, values looked at closer and harder (strong contracts with equity or earnest money) contracts from builders. The builders acknowledged that "Phase Two" and "Phase Three" projects in successful master planned communities will continue to be prime locations. For "flat out new" projects, the challenges will be extreme. All of the builders projected that new lot development is going to be tremendously curtailed even in this relatively strong market.

Builders and developers should not assume that the past practices for deposits can continue. The 18% to 19% equity deposits used as equity positions in lots will not be offered.

Relatively new to the development program will be private land equity. The challenge is that that type of venture capital generally expects returns that exceed 20%. With the south central Texas regulatory environment considered one of the most contentious in the country, it takes more than two years to develop the first set of lots. When looking at raw land right now, putting a house on it may create a negative value.

### **Amenities**

A quality amenities area can certainly add to the appeal of the subdivision. But amenities also increase the costs. The challenge in providing amenity packages is that the public is divided on what it wants. As a result, the group was not uniform in their view of what amenities are absolutely required.

The top four to five amenities people want depends on buyer demographics. The move-up buyers tend to be families with kids or parents moving back. Builders are seeing more diverse buyers in a single neighborhood. In the higher-priced communities, house spacing, wider sidewalks and accessibility for older people are considered desirable amenities.

For builders of entry-level housing, it becomes more critical to take out all the "frills." Income and job growth are becoming more limiting for loan initiation and once closed, the buyer must be able to handle house payment as well as the Home Owner Association (HOA) dues. Besides HOA fees creating a burden on buyer, the cost of HOA dues become a significant carrying cost to the builder which must be included in the price of the home. For the large builders, sustaining amenity areas in the early stages of construction can be hundreds of thousands of dollars a year. When a major downturn occurs and they only sell 60 houses in a major subdivision, the result is calamitous. One builder took all amenities out of a prospective development to get to the company's required price for its targeted market segment.

One line of thought was that people think of the pool clubhouse is their country club. On the other hand, the cost of a pool area built to commercial standards will likely be near \$1.5 million. If that cost is put "up front" on the first buyers and the builder, the model becomes dysfunctional. To get the nice amenity area, future developers are going to have to address the question, "How do you get initial investment done before you get enough sales to recover the cost and sustain the maintenance?"

Builders and developers are experimenting with "pocket parks" with just a basketball court, playscape (no water features), volleyball pit, etc., so a \$50,000 playscape or basketball court may become the alternative. For the home buyer, this type of amenity will result in a more affordable community for the long term. Houses in the 1950s didn't

have the extreme amenities and buyers may find themselves going back to the basics. The "softscape," feel of neighborhood, can be more important.

How many lots does it take to build "community feel" and amenities? The builders suggested a 1,000 lot development needs pocket parks but may be able to be sold without pools. Green areas and playscapes in community make it more livable. People like trails.

A past practice was to leave the green space for future amenities and let home buyers put in pool or what other amenities they want later. Builders are trying to get away from needing units on ground just to cover the roof tops paying amenities. It is typical to need 150-200 houses just to meet the amenity subsidy.

Uniformly, the builders observed that if buyers are promised amenities – the prospective buyers need to see the improvements. Often prospective buyers are either skeptical or cannot visualize the enhancements. If the amenities are to be phased or the land deeded for a future project directly by the HOA, then the builder sales team is going to have to find a better way to set expectations.

As always, the market will reward creative design standard for master plan or implementation techniques. One example was working with the City of Buda to put a park and pool in partnership with the city. A different approach was the Ranch at Brushy Creek where an amenities area was developed where the pool is private but the City of Cedar Park has oversight of the parks and some of the facilities.

### **The New Reality: What Will Be Required to Build Communities for Families?**

1. Affordable lots the most important variable. The biggest challenge for development is offsite infrastructure (bridge, lift station, etc.). Public home building companies are saying "no" to large projects making smaller units near existing planned communities and municipal services price competitive.
2. Pod developments where sections of land are turned over to builders are an attractive alternative to share development risk.
3. A significant share of the builders would rather buy finished lots under any economic scenario and will continue to purchase finished lots – even after economic recovery.
4. The forecast for land development is that bank funding will get much worse before it gets better. The metrics that bankers use will not work under the current regulatory environment today. Banks are too busy trying to improve their capital ratios. Private equity will play a bigger role, but the return to equity funds will have to grow.
  - a. Builders cited national examples where land had negative value. They were buying land for less than the cost of the improvements (example: Phoenix).

- b. New relationships to emerge with equity/debt, but that will require innovation not yet seen in the Austin regional market.
  - c. Builders cannot provide the developers equity.
- 5. Too often, a developer will construct their own "big pipe dream" and does not talk to builder soon enough. Inevitably, there is a disconnect. In the current economic environment, there is not the luxury of inefficiencies.
- 6. The best kind of developer to work with does not need the builder equity and picks a small number of builders that fits the community.
- 7. Builders to developers: most builders would provide 2.5% to 5% in earnest money for right deal. The old business model was 18-19%.
- 8. The ideal solution for phasing would be some kind of ramp up program (tough on first builders since the community is empty, just getting started).
  - a. Developers should recognize that it is hard to convince people to be first in a community. If there are thousands of lots in a community it is a challenge for first builder.
- 9. Builders have to avoid investor sales "like the plague." It is critical to realize that while such sales may relieve short term cash requirements, they may lead to a failed neighborhood. *With investor sales there is a greater likelihood of foreclosures and property not maintained to neighborhood standards.*
- 10. The demand for affordable entry-level detached housing will remain huge. Builders pointed out that many of Austin's most "trendy" neighborhoods were once considered entry-level homes. Again, builders estimate that demand for homes priced over \$175,000 on represent roughly 30% of the new home market.
- 11. Builders will also need to work to make the HOA authority meaningful.
- 12. Demographics are changing dramatically and that will affect what builders construct, how they sell and how their product is perceived by decision makers.

### **Conclusion**

How can the Austin region keep up with an affordable housing supply in a market fraught with construction and development difficulties due to the downturn in the economy? Key representatives from nearly a dozen of Austin's most well known home building firms explored future affordable housing subdivision deals can get done in a restricted lending environment.

The focus group covered a gauntlet of issues affecting the way homebuyers attitudes have changed about the way they want to live today. Exploring priority shifts in consumers viewpoints on environmental and economic conditions, the group sought to get out ahead of the certain future shortage of developed lots caused by the shrinking supply of capital and restricted ability to fund speculative projects. Those factors have shut down most new lot development in the last several years.

In order to function efficiently, the home builder representatives said their companies needed to keep 18 to 24 months of lot supply in front of their building crews with either developed lots or subdivision plans which are approved and able to be quickly constructed.

One of the most vetted topics of discussion was the New Urbanism style of development versus more traditional suburban lot development as well as differences in costs to do both. But the center point of the discussion was seeking ways to obtain the funding to develop lots at all.

Speculative development will be a thing of the past. Motivated by the desire to "measure twice, cut once" developers will need to keep a keen ear to listen for product design input. The market will see a lot supply constriction due to the loss of traditional land development supply-side economics, and the loss of development funding sources of the recent past, and builders will be motivated to become engaged in early stage community design driven by their consumer's market tastes and demands.

Entry-level, first time homebuyers are balancing their budgets every month and are looking for value. They must be realistic as to what they can buy. An increase of even \$100 per month in monthly mortgage payments can mean the difference of being able to purchase or not.

In the next several years, only 30 percent of all houses built will be more expensive than the \$175,000 range average price that Central Texas buyers would be able to afford. That probably will mean that most development for this type of product will be east of IH-35 in the SH 130 corridor.

Builders and developers will encounter difficulty doing large scale land development due to capital constraints. Before new lot development will take place, there will likely have to be firm agreements between builders, bankers and developers. Those agreements will require much higher capital equity ratios and firm contracts with builders to take down the lots after development. There will be little room for permitting delays.

There was general consensus that eventually, ways will be found to structure deals for new lots to be developed. However, large and costly amenities like swim and athletic centers, golf courses and major infrastructure will have to give way to softer, greener amenities like greenbelts and pocket parks which are more in demand with consumers in today's marketplace. *Having well located land with access to utilities will be crucial.*

Attachment I

Participating Home Building Companies

<u>COMPANY</u>	<u>ANNUAL CLOSINGS</u>
KB Home	499
Meritage Homes	302
Scott Felder Homes (purchased Newmark Homes)	282
DR Horton	1,069
Standard Pacific Homes	300
David Weekley Homes	338
Grand Haven Homes	76
Pulte Group (includes Centex Homes)	<u>1,195</u>
Total	<u>4,061</u>

Total Volume as Percent of Top 10 Builder Volume	75%
Total Volume as Percent of All Production Homes	52%
Total Volume as Percent of All Homes	43%

Source:

Eldon Rude  
Director Austin Market  
Metrostudy

Attachment II

Maximum Home Price

$\$64,726$  to  $73,300 \times 30\% = \$1,618$  to  $\$1,727/\text{mo.} = \$161,000$  to  $\$230,000$

$69100 \times 30\% = 20730 / 12 = \$1,727$  Texas A&M Real Estate Center  
<http://recenter.tamu.edu/data/misc/afford5.html>

Better Homes & Gardens

$\$253,614$  to  $\$234,515$

<http://www.bhgrealstate.com/Learn/Finance/Calculator/HomeAffordability>

ABC News

$\$202,257$  to  $\$185,112$

<http://abcnews.go.com/Business/page?id=4015822>

Bryan Bank

$\$214,138$  to  $\$177,423$

<http://calcs.c2commerce.com/c2calculators/byron/homeafford.asp#Results>

Credit.com

$\$161,054$  to  $\$185,112$

[http://www.credit.com/vcapps/calc\\_affordability.jsp](http://www.credit.com/vcapps/calc_affordability.jsp)