



## D.R. Horton ramping up speculative starts in Central Texas

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**In the strongest sign yet that the local homebuilding market is turning around, the largest builder in Central Texas, D.R. Horton, is ramping up production by putting hundreds of speculative homes on the ground in its communities across the region.**

Most of the houses under construction are priced at less than \$200,000, said Rob Hutton, president of Horton's Central Texas division.

Speculative homes are houses built without buyers lined up. Hutton wouldn't say how many such homes Horton has under construction.

**The under-\$200,000 segment has a supply shortage — builders retreated from that price point after the mortgage meltdown started in 2007 — but it now has strong demand, including from first-time buyers looking to take advantage of an \$8,000 federal tax credit that expires**

Dec. 1, Hutton and industry experts say.

**"The market is stabilizing, and better days are ahead," Hutton said. "We believe in Austin."**

D.R. Horton started construction on 162 homes in the first quarter and 398 in the second quarter, which ended in June, said Mark Sprague, the Austin partner for housing tracker Residential Strategies Inc. "They could easily start another 100" this month, he said.

"Truly, I believe it's a great gamble, because nobody else is starting (speculative homes), particularly below \$250,000," Sprague said. "I think it's a great bet on their part because sales have picked up. They're the only guys that have done it, and they are doing it across Texas."

Hutton pointed to a shortage of lots and homes in lower price ranges, mortgage rates near historic lows, the tax credit and anticipated increases in local home prices.

"If you look at the big picture, the conclusion can only be this is a superb time to buy a new home," he said.

## **Increasing demand**

Hutton said D.R. Horton made a strategic decision to increase activity in Central Texas earlier this year, when consumer confidence picked up and the company saw more prospective buyers in its subdivisions.

About 10 percent of the prospects were people moving here from other cities and states, and 75 percent were renters looking to become homeowners, he said.

D.R. Horton has 21 projects in Travis, Williamson and Hays counties.

"A lot of people are transferring in from California and other parts of the country and need to be in something quickly," Hutton said. "That's one very big driver" behind the speculative building, he said.

So is the tax credit, he said: "It's definitely on everyone's mind."

Although the credit expires Dec. 1, Hutton said buyers should make a decision well ahead of that because it can take more than a month to arrange financing.

Hutton said the majority of Horton's current starts are homes priced below \$200,000 as the company attempts to build "where the greatest number of potential buyers are."

Horton is seeing "a lot of conservatism in buying patterns," Hutton said, with many people choosing to purchase a less expensive house than what they could qualify for.

He said that the company has more than 25 homes under construction in Avery Ranch, which D.R. Horton co-developed, and that 20 or more homes are being built or nearing completion in subdivisions, including Cedar Park Town Center, Parmer Village; Benbrook in Leander; Settler's Overlook in eastern Round Rock; Sweetwater and Rancho Alto in Austin; and Briarcreek in Manor, where the company already has built more than 700 homes.

## **A slow turnaround**

D.R. Horton and other builders pulled back sharply here after the subprime mortgage meltdown and subsequent housing downturn.

The company started 2,238 homes in 2006, then dropped to 1,710 starts in 2007 and to 1,042 by 2008, Sprague said. Hutton said the company will built a little more than 1,000 homes in its fiscal year ending in September.

Sprague said he is "cautiously optimistic that the market is turning around."

"It's not going to be a rapid turn — it's going to be a slow turn," he said, predicting that it will take five to seven years to return to historic norms of 10,000 to 12,000 homes built per year.

At the peak in 2006, builders constructed 17,106 homes in Central Texas. Last year, they built 9,800 houses, and this year they are expected to build 6,400 homes — a drop of 62.6 percent from 2006.

Sprague said he's seeing a "positive attitude" among builders. And some former players are getting back into the game.

Scott Felder, a longtime Austin builder, recently bought the local operations of Newmark Homes, whose parent, TOUSA Inc., filed for bankruptcy last year.

Felder said this month that the purchase was the "perfect opportunity to step back into the business" because "lots are cheaper, a huge amount of competition has fallen off and there's market share available."

Felder also said that he thinks there is significant pent-up demand for housing and that "prices will start moving back up this fall due to increased demand and lack of supply."

More signs of a rebound came with the recent release of Residential Strategy's second-quarter figures on home starts.

The construction total of 1,861 starts was down nearly 35 percent from a year ago, but it was almost 53 percent higher than in the first quarter.

Although activity typically picks up from winter to spring, the increase was more than twice the jump between the first and second quarters of 2008.

**Courtesy of JB Goodwin**