

Norman housing market faces unique challenges

By Randall Turk - 4/2/2007

As overbuilding and problems with "creative financing" rattle real estate markets in some areas of the country, the demand for Norman homes remains strong, but far from the pace set last year.

Those who build and sell homes in Norman acknowledge the residential market has been slipping since last August. But in the context of what's happening nationally and throughout the metro, Norman is in relatively good shape, housing experts maintain.

Norman builders and Realtors agree that the key component in any real estate transaction — the buyer — is beginning to change the nature of building and selling Norman homes. Essentially, higher-priced homes are selling well in Norman, but middle-priced new and existing homes for sale are stacking up and beginning to dominate the local housing inventory.

Housing starts weak

Norman registered a dismal 42 housing starts for January and February, compared to 133 for the same period last year. Since August, 215 residential permits were filed in Norman compared to 414 for the six months ended in February of last year.

Builder Curtis McCarty, president of the Norman Builders Association, says housing fundamentals remain good in Norman, with low interest rates, stable prices for building materials and home values increasing at a steady 7 to 10 percent a year. But McCarty, also a member of the Norman Planning Commission, sees danger in the rising cost of city permit fees builders must pay. Such fees currently total \$4,698 for a 2,400-square-foot Norman home, well above the \$696 assessed builders for the same home built in Oklahoma City, \$2,563 in Edmond and \$1,248 in nearby Moore.

Norman is the only city in Oklahoma whose charter mandates citywide elections to approve water and sewer rate increases. Builders claim they have been taking up the slack. While Norman voters have handily approved water and sewer fee hikes in recent years, most building permit costs paid by Norman builders — more than \$4,000 of the \$4,698 cost per typical new home — involve connection fees and taxes for water and sewer service.

Costly place to build

"Today, Norman is far and away the single most expensive location to build a home in the metro area," McCarty said. "The impact fees and excise taxes on new home construction can make a new home in Norman cost as much as \$5,000 to \$10,000 more than the same new home in surrounding communities."

McCarty sees the current housing slump in Norman as a mere "course correction," with no prospects of becoming the catastrophe experienced in some parts of the country.

"Flipping" real estate, or the practice of buying property, making improvements and quickly reselling, has been "the number-one problem for the real estate market, primarily on the East and West coasts," he said. "The national news media caught on to the problem. Property values in states like California, Florida and Arizona skyrocketed 30 to 40 percent in 18 to 24 months – and collapsed by about the same amount over the past six months."

Numbers relatively good

An expanding inventory of new homes built over last summer was probably one of the causes of this year's diminished housing starts in Norman, McCarty said. It could be much worse, he believes.

Records show Norman residential permits declined less than 8 percent from 2005 to 2006. But in 2005, 724 residential building permits were issued in Norman, the highest level of building activity since 1983, a year of 785 building permits.

McCarty and others are quick to point out that Norman's building decline is well below Moore's 37 percent fall-off and the metro area's 13.6 percent slide last year.

Buyers drive up costs

So just how costly is a new Norman home these days? McCarty, who has been building high-end custom homes since 1992, says amenities buyers want in new homes have extended the range of building costs.

He describes the demand for homes priced \$250,000 and up as "strong," while the market for homes priced lower as "saturated" in Norman. The cost of a new home "can go from \$95 to \$200 a square foot in Norman," he said. "Norman hardly has affordable new housing anymore."

Currently, McCarty is building homes in Carrington Lakes, a new subdivision southwest of Franklin Road and 36th Avenue Northwest. Because residential development is limited by the Canadian River floodplain, "just a few pockets" of such land are available for development on Norman's west side, he said. In recent years, homebuilding has concentrated in northeast and east Norman, formerly less "fashionable" areas where land is more plentiful.

Existing home market affected

A slowdown also is apparent in the market for existing homes in Norman. While home sales in January and February were similar to results for the first two months of last year, the prices paid for existing homes are declining, and the inventory of unsold homes is poised to grow.

In late March, 574 homes were listed for sale in Norman, a three- to four-month supply as determined by current demand for homes, Realtors say.

"Probably half of our listed homes are in the \$150,000 to \$300,000 price range," said Jayme McLaughlin, Norman Board of Realtors president.

Buyers closed on 137 Norman homes in January and 170 in February, traditionally slow months for home sales. Norman home prices averaged \$155,000 in January and \$147,000 in February.

No buyer's market yet

"Historically, six months of housing inventory creates a buyer's market," McLaughlin said. "We haven't reached that point yet, but I've been seeing a 1.5- to 2-percent drop in sales prices since September."

While the number of homes on the market is not much higher than at this time last year, McLaughlin sees the potential for a significant increase in the inventory of unsold Norman homes.

"The big difference is time on the market," she said.

Last year, McLaughlin said, a Norman home sold in an average of 47 days, including about 30 days required for closing activity.

"Now the average home sale takes 70 to 90 days," she said. "Buyers are thinking they can lowball the market because of what they're seeing in the media."

Little danger seen

Despite concern about subprime lending, McLaughlin said Norman and other areas of the metro are not experiencing the level of foreclosures that has driven up interest rates and lowered home values in other parts of the country.

"When will interest rates climb? I don't know," she said. "Now they're at a historic low, and we think they might stay low for at least the next four months."

Major lending institutions have warned that many more homeowners could be pushed into foreclosure as interest rates for adjustable-rate mortgages are reset this year and next. McLaughlin sees little danger of such a crisis in Norman.

"Some people in Norman are living in homes they shouldn't be in," she said, "but the market is like a pendulum built to correct itself. In Norman, the swing of the pendulum probably is not as broad. Right now, we're in a transitional period."