

# THE CUSTOM HOME MARKET

## A BUILDER'S PERSPECTIVE

BY Steve Zbranek, 2 Time National Master Builder of the Year | Zbranek & Holt Custom Homes

*"From the outside this new demand on the custom home market could be viewed as "Home Builder Heaven". From the inside, there are more challenges to delivering a new home than I have seen in my 42-year homebuilding career."*

Forty-two years ago, I entered the home building industry as a superintendent trainee with a national production building company. Looking back, life in this industry was simple. Lots were cheap and plentiful, building supplies were abundant and construction crews were always coming around looking for work.

Our support industries such as surveyors, title companies and mortgage companies were all able to take as much business as builders could send them and still wanted more. Mortgage rates were as low as 10.39% for a 30-year fixed rate loan, and new production homes started at \$49,900. That was then.

Today it is hard to recognize the industry that I grew up in, and continue to succeed in. Lots are expensive and scarce. Construction crews are busy and expensive. The support industries mentioned are all doing the same things, but are so backed up that they can't predict completion or service deadlines for clients (except Title Companies who seem to have adjusted the fastest). This "new normal" has caused every builder to re-think their programs, production schedules and prices. The most senior new custom home builders have been through several of these "events" in the past such as fuels shortages, 17% mortgage rates, the collapse of the mortgage industry and others. To them (us) this is just the next big challenge.

While the Covid pandemic shut down much of America, the demand for new homes, for some reason, soared. In our firm, Zbranek & Holt Custom Homes we always felt blessed to receive 2 to 3 new calls per week from families interested in building a new custom home in Austin or the surrounding areas. Today, we receive 2 to 3 calls per day. Talking to fellow builders this is not unique to our team. From the outside this new demand could be viewed as "Home Builder Heaven". From the inside, there are more challenges to delivering a new home than I have seen in my 42-year homebuilding career.

*The accelerated demand has caught many building and industry support companies unprepared.*

Let's begin with lumber. During Covid the mills shut down until they could adjust to social distancing rules and worker safety. Now they are gradually reopening but are way behind the demand curve. Wholesale lumber is priced "per board foot". A year ago, that number was close to \$350 PBF. Last week it was \$1650 PBF. Even at these horrible prices lumber is also in short supply. We often wait for the lumber distributors to receive a shipment to their yard, which is then usually gone the same day. This affects not just lumber but all wood products (trim, doors, cabinets etc.).





The labor shortages reported on the local news exist in our world as well. Surveyors are taking 6 to 8 weeks for products that were once delivered in 3. Appraisers are overwhelmed with new business and there are not enough of them to keep up. Loans are now taking months to close versus weeks. A national window company suffered a COVID outbreak and shut down, leaving dozens of window orders in limbo. When they finally re-opened, we learned that the hardware supplier for that company had shut down and they were unable to get materials to build the windows. The lead time to receive almost everything it takes to build a home is extended. Then, we receive emails from vendors stating that due to the price of copper going up our next electrical bid will be 15% higher. Due to the price of steel rising, metal roofs, garage doors and structural

steel used in foundations will be 10% to 12% higher on the next bid. The list goes on. This “Builder Heaven” is handing us more challenges than most in our business have ever seen.

### *What is the “Good News” in all of this?*

First, a home buyers largest concern on the investment of a new home is that they might pay more to buy it due to these “Covid Costs” than they can sell it for in the future. That does not seem to be the case, in Central Texas anyway. In the resale market you hear of multiple offers, often higher than the asking price. The homes also have the shortest time on the market in years, if ever. While we only build pre-sold homes (not specs), there are signs on all of our projects and we often receive calls from prospective home buyers interested in purchasing those homes. In one case, a caller asked to speak with the new home owner so he could make them an offer to sell. The house was in the framing stage on the water and the guy was calling from his boat.

The cost to build is going up, but not nearly as fast as the value of what we are building. Land continues to be scarce and will be the initial driver, and ultimate challenge to new home costs. Six of our last ten Lake LBJ new home starts began with us tearing down an existing home to “recycle” the lot. Lumber is the anomaly in our current market. No one thinks that the current levels are sustainable but no one can predict when supply finally will catch up with this high demand. Most of us expect to see some relief by the summer or early fall. However, waiting for lumber costs to retreat to start your new home is missing the sweet spot of the economy that we are now in. 3.5% to 4 % interest rates can mitigate a lot of lumber numbers. And, while lumber will probably be lower at some point, the other line items in a builder’s budget will continue their seasonal, and typical increases.

For perspective, back when those of us who remember 10.5% as a good interest rate, on a \$650K loan the monthly payments were \$ 5,946, every month. Today, a \$650K loan at 4% is \$3103, every month. That’s \$33,600 in savings in one year.

Focus on the economy and hire a builder you trust to focus on the rest.



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Inductee Austin Builder Hall of Fame  
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2 Time National Master Builder of the Year  
6 Time Custom Builder of the Year

