

HOUSING CHRONICLES

Lot Prices Coming Down: This is Good News

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Since the largest cost for builders in California is the land upon which they build, making homes affordable has been challenging when landowners refuse to cut their prices in the face of a slower market. Simply put, the market for new homes will not improve markedly until prices are more in line with household incomes and buyers can qualify for mortgages in the traditional way (i.e., 10-20% down, a couple months of reserves, etc.).

That's why it's actually good news that lot prices in hard-hit areas such as the Antelope Valley and the Inland Empire have finally fallen to levels last seen two or even five years ago. According to a story by Builder's John Caulfield, a report (i.e., clever press release) produced by the land broker *The Hoffman Company*, finished lot land values are down by up to 52% when comparing the fourth quarters of 2005 and 2007.

Why the change? Not surprisingly, fewer buyers. According to the story:

Norm Scheel, a principal with Hoffman, tells Builder ONLINE that the majority of the pullback in land prices occurred this year, which he attributes primarily to a "lack of need" among home builders that are themselves selling land and walking away from options.

"Home builders seem to be doing two things," says Scheel, "preserving capital and burning inventory."

So where is the carnage the worst? Areas such as Lancaster and Palmdale, where lot values in certain areas have plunged by over 38% (and which will eventually mean more affordable new homes). In the Inland Empire counties of San Bernardino and Riverside, the hardest-hit areas include French Valley (-52%), Highland (-49%) and East Lake Elsinore (-47%).

These areas do have something important in common: they were all areas that buyers were willing to drive to in order to find something affordable. Now, with home prices falling in those communities closer to various employment centers (such as the Santa Clarita and San Fernando valleys or the western and southern Inland Empire), the only ways that land prices in more outlying areas can compete is on price.

This is also exactly what happened with land prices in the early- to mid-1990s that eventually led to the housing recovery of the late 1990s and early 2000s.

It's really just part of the correction process, painful as it may be for landowners (and especially for those who borrowed heavily to buy land).