



## Prices for vacant Southern California residential lots have plummeted

By Thor Kamban Biberman

Home prices have been dropped significantly, but finished lot prices have positively plummeted throughout Southern California, including San Diego County.

The Hoffman Co., an Irvine-based land brokerage firm, reports that as recently as September 2005, finished 10,000-square-foot residential lot prices within Richland Communities' Arrowood golf course-oriented development off Vandergrift Boulevard in north Oceanside were \$400,000, or 43.75 percent higher than \$225,000 for a lot at the same location today.

"If we roll back two or three years ago, national homebuilders wanted two years of land inventory," said Norm Scheel, a Hoffman principal. "They were having trouble keeping up with the demand."

He said at the current rate of absorption -- only about two lot sales per project per month -- it will take about five years to consume Southern California's inventory.

"Homebuilders don't need additional lots today. They are preserving their capital and are selling them off," Scheel said.

This means plenty of bargains are to be had for investors willing to wait for lot and home prices to climb back up again.

"The value of land in California is being set by land investors and speculators," Scheel said. "After months of stalemate, it's suddenly a competitive environment. The price expectations of buyers and sellers are much closer today than a year ago, so we've been able to put more deals under contract."

"Right now, most of the buyers are individuals using their own money," Scheel continued. "They feel the land market could still drift down a bit, but the risk of waiting is greater. The prospect of getting in too late has them competing with Wall Street money that could run up land prices."

With large national homebuilders such as KB Home (NYSE: KBH), D.R. Horton (NYSE: DHI) and Lennar (NYSE: LEN) selling off their lots, Scheel said the current market presents opportunities for the small- to medium-sized homebuilder.

"Now they have the opportunity to buy at reduced or depressed rates, and they can build a less expensive house," Scheel said.

A lot of attention has been focused on falling home prices and foreclosures, but that overlooks the land side of the equation, said Tom Dallape, the other Hoffman principal.

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For example, finished lots in Fontana were selling for \$240,000 at their peak and new homes were selling at \$570,000, or roughly 2.4 times the value of the land. Today, the estimated lot value in Fontana is \$175,000. For a builder to realize the same profit margin, a home on that lot could be sold for \$415,000.

"That's good news if you are a prospective home-buyer, but bad news for builders with existing lots and standing inventory, which also applies to homeowners who bought at the height of the market a few years ago," Dallape said.

Scheel said the land prices started to decline before the home prices did, and he is hopeful the lot prices are about to bottom out.

They haven't bottomed out yet. Lot prices have continued to fall in Southern California -- as much as 50 percent from 2005 in some areas, down to levels not seen since 2002.

Along with Oceanside, the decline in lot prices was highly pronounced in southwest Riverside County, which has exploded with new housing during the past decade.

For Riverside County as a whole, Hoffman shows values for finished lots have fallen from their 2005 highs by an average 42 percent.

In Corona, for example, values have fallen 40 percent from a \$300,000 peak down to \$180,000.

In 14 cities surveyed in San Bernardino County, the estimated lot values have fallen by an average of 37 percent. Chino shows a drop of 45.7 percent from the finished lot cost of \$350,000 from two years ago.

A 52.1 percent decline from 2005, the most dramatic in the Hoffman survey, was recorded in the French Valley in the Temecula/Murrieta area. The smallest decline in Riverside County was in Moreno Valley, with a 36.1 percent drop in lot prices during the past two years.

In San Bernardino County, the smallest reduction in value was in Fontana at 27.1 percent and the largest is in Highland with a 48.9 percent decline since 2005.

The Hoffman Co. closed several land transactions in the Inland Empire over the past three months totaling more than \$30 million and also put an additional \$80 million in land sales under contract there during that time period.

In Los Angeles County, The Hoffman Co. report shows values for finished lots declined almost 40 percent in parts of the Antelope Valley, where Palmdale lots that soared to \$210,000 in 2005 are now selling for \$130,000.

"The decline in the price of land has happened rapidly. In the past two years we've lost five years of appreciation," said Scheel "We may see prices drop a few more percentage points in the first half of 2008, but land values have already taken the 'big hit' and whatever comes next will be minor in comparison."

Hoffman Co. brokers have closed more than 1,100 real estate transactions for a total \$4 billion since the company's inception in 1978 and have booked an average of more than \$500 million annually over the past five years. Hoffman represents land-owners in a variety of property types, including residential, multi-family, commercial and industrial.