

Land prices plunge in Inland Empire, but Fontana's land has smallest decline in value of any city in two-county region

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Land prices have plunged as low as 50 percent in some areas of the Inland Empire to reach levels not seen since 2002, according to a report released recently by The Hoffman Company, a leading land brokerage firm that tracks land values in the region.

However, Fontana's land prices had the smallest decline in value of any city surveyed in both San Bernardino and Riverside counties, the report said.

In San Bernardino County, the smallest reduction in value is in Fontana at 27.1 percent and the largest is in Highland at 48.9 percent. The largest decline in Riverside County is a 52.1 percent drop in French Valley (near Murietta) and the smallest decline is in Moreno Valley at 36.1 percent.

It is not only outlying areas such as Hemet and Adelanto that are hard hit. Even in Corona, average lot prices have dropped from \$300,000 to \$180,000.

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

In Riverside County, The Hoffman Company report shows values for finished lots have fallen from their 2005 highs by an average 42 percent, down 5 percent from a September report by Hoffman. In Corona, for example, values have fallen 40 percent from a \$300,000 peak.

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 two years ago.

"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."

Over the past three months, his firm closed several land transactions in the Inland Empire totaling more than \$30 million and put an additional \$80 million in land sales under contract during that time period.

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

A lot of attention has been focused on falling home prices and foreclosures, but that overlooks the other side of the equation, said Tom Dallape, the other principal of The Hoffman Company. The cost of land is a key factor in determining the price of new homes, he said, and less expensive land means that developers would be able to build more affordable homes.

For example, finished lots in Fontana were selling for \$240,000 at their peak and new homes were selling at \$570,000, which was 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 homebuyer, 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.