

Plummeting land prices mean more affordable homes

By Justin Esayian



Land prices have plunged as low as 50 percent in some areas of Southern California, reaching levels that have not been seen since 2002, according to a recent report released by The Hoffman Company, a land brokerage firm that tracks land values in the region. The data indicates that the downturn in the housing market is swiftly correcting itself against the remarkable appreciation experienced in recent years.

The report suggests that as land pricing has declined in Southern California, a further decline in housing pricing can be anticipated as well, quite possibly through all of 2008. This is likely to be reflected in markets across the country. The silver lining in this cloud is that movement in the real estate market, up or down, is good news for brokers.

Brokers, either on the land side or on the residential lending side, live or die based on transactional volume. The fact that there is beginning to be movement on the land side is good news for Mortgage Brokers and bankers, dependent on transactions in the housing market. It means that there is a new equilibrium that exists where transactions can occur.

The prior 24 months in the land market have been relatively stagnant. There has been a disconnect between the price expectations of land-sellers and the price expectations of land-buyers too great to create transactions. That gap began to close over the last quarter of 2007. Until recently, many landowners had the ability to hold on to their positions and their need to sell was relatively low. Now, a landscape change has begun. Landowners that bought property on option, or under heavy financing terms, can no longer sit and wait—they need to cash out, even if they have to sell at a heavy discount. There is already a new price floor being set in Southern California, and this trend is expected to continue over the next 24 months, as the cost of sitting on idle land becomes too high.

In North Los Angeles County, The Hoffman Company report shows that recent values for finished lots declined by 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.

Land prices in the 15 cities of Riverside County have fallen from their 2005 highs by an average 42 percent, down five percent from a September report by The Hoffman Company. For example, in Corona, 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 decline in the price of land has

happened rapidly. In the past two years, the land market has lost five years of appreciation. Prices may drop a few more percentage points in the first half of 2008, but land values have already taken a big hit, and whatever comes next will be minor in comparison.

The response to this dramatic price drop is that investors are starting to move on these favorable land deals. After months of stagnation, The Hoffman Company is seeing a significant increase in land transactions across Southern California. Based on 30 years in the business, including the real estate meltdown of the early 1990s, brokers believe this is a sign that the land market has hit a sweet spot for investors.

While most of the buyers in 2007 were individual investors, the big players, backed by Wall Street money, are expected to shake up the market in earnest this year and continue snatching up land during the next six to 12 months. That burst of activity will mean more business for land brokers, and ultimately, the residential housing market, because the land market, specifically homebuilder lot values, typically dictates the price of future new homes. Less expensive land means that developers would be able to build more affordable homes, and with lower prices on the horizon, new, more qualified buyers will step into the housing market. Lower home prices, in turn, will lend themselves to conform to traditional financing products that were unavailable to homebuyers in over-priced housing markets.

During the peak of the market, government programs such as the Federal Housing Administration and Veterans Affairs loans, or more traditional Fannie Mae/Freddie Mac programs, were limited by their lending amounts and lack of exotic terms. For example, conforming Fannie Mae financing tops out at \$417,000. In many hot housing markets, including Southern California, that price would not have gone very far over the past few years. Now that land values in these areas are becoming more reasonable, housing costs may start to reflect those in comparable suburban markets, giving potential buyers the chance to meet affordability requirements to qualify for a broader range of financing.

In other words, with land and housing pricing falling into the new affordability window, we will start to see more transactions taking place. The value clock is being reset and those buyers that were once priced out of the market now have a chance to get into it.

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