

Partially constructed Oceanside development sold for \$30 million

By Thor Kamban Biberman

OCEANSIDE - San Diego-based ConAm Group of Cos. has purchased the 14.4 acre, partially constructed Piazza d'Oro residential mixed-use project in Oceanside for a reported \$30 million.

ConAm, which specializes in multi-family projects, acquired the land, what will be 221 residential units with some planned retail and office space from K. Hovnanian Homes (NYSE: HOV). The site is north of Highway 78 at Rancho Del Oro Road and Vista Way.

Justin Esayian, an associate of The Hoffman Co. who brokered the deal, said the residential units, some of which are being designated as live/work lofts, will be marketed as apartments. The project will also include a clubhouse, fitness spa, a pool and a tot lot. A small amount of flexible office space will be joined by a small neighborhood-type retail center.

"This is a great property with substantial improvements in the ground," Esayian said. "K. Hovnanian was going to market it as for-sale condos until the housing market shifted. Now it doesn't make sense and they wanted to sell it, so this is a win-win situation."

The property is just one of numerous such land and development assets that Hovnanian has been selling as bad as that was, the loss of \$823.4 million in the like quarter a year earlier was much worse. The third quarter figures for D.R. Horton weren't yet available.

As recently as September of last year, Hovnanian has opened escrows on some 2,100 residential units around the country in a single three-day period, but its fortunes have fallen precipitously since then.

For the quarter ended July 31, Hovnanian posted a \$202.47 million net loss on \$716.54 million in revenues. This was compared with a loss of \$77.86 million on a \$1.13 billion in revenues for the like period a year earlier.

For the nine-month period ended in July, Hovnanian posted a \$674.13 million loss on \$2.58 billion in revenues. Those figures compared to a \$160.52 million loss on \$3.44 billion in revenues for the like period in 2007.

The stock has traded from a high of \$13.50 to a low of \$3.38 per share during the past year. The stock closed at \$3.90 per share, up 14 cents on the day Friday.

Locally, Hovnanian didn't record any opened escrows at all at its Vallecitos Ridge in San Marcos during the third quarter, only three homes were reserved at its Lake Rancho Viejo project in Fallbrook, and only two homes were reserved at its Bella Lago development in Chula Vista.

Neither Hovnanian nor ConAm officials could be reached for comment Friday.

Esayian said the property was particularly attractive to ConAm, which oversees a portfolio of more than 50,000 units nationwide, because it is already partially built. Esayian also said the project is a high-quality asset that will hold its long-term value in a tough market.

"Yes, the real estate market is uncertain right now, but this is a smart time to pick off the best properties at a price we haven't seen in years," Esayian said. "The guys at ConAm are local, they know the market and they have a long-term vision for this project. This is a bold play that is going to pay off for them both now and down the road."

The sale is also seen as a strategic move for K. Hovnanian, which was seeking to minimize its land exposed on this project and was motivated to sell because of the fiscal year-end tax break, Esayian said.

In the past 90 days, The Hoffman Co. has closed seven real estate deals in Southern California in excess of \$55 million. Two of the largest ones were motivated by the potential for tax write-offs that extend back to 2006 -- the last year the big national homebuilders made a substantial profit.

"We expect to see more distressed land deals -- especially those involving publicly traded builder and developers -- between now and the end of 2008," said Norm Scheel, co-principal of The Hoffman Co. in a prepared statement. "This is the last chance for them to take a loss that will count against their gains in 2006, which is the last year that anybody in real estate made a substantial profit."

Esayian said he doesn't believe there are too many more such sales in the pipeline.

"I think this is the tail end of sales like this because most of them are tax-motivated transactions," Esayian said.