

Investors Gamble on Finished Lots

Ready-to-build properties becoming available, sometimes well below owner's cost to prepare



Investors are buying finished vacant lot by the dozens to hold until values rise, such as these at Scott and Briggs Roads in Menifee. Residential real estate in all development stages, from raw land to ready-to-build lots, today poses a burden for many homebuilders.

By Leslie Berkman

RIVERSIDE – Homebuyers aren't the only ones looking for foreclosure bargains in this real estate market. Developers and newly formed "vulture funds" are seeking to buy land at distressed prices, hoping to make a killing by selling it to home builders when the rebound comes.

"Acquisitions today at these depressed values will be the deals of the future," said Norm Scheel, a principal with the Hoffman Co., a land broker based in Irvine.

Residential real estate in all development stages,

from raw land to ready-to-build lots, today poses a burden for many home builders that have scaled back production and banks that are stuck with defaulted construction loans.

Relatively few land sales have occurred, brokers say.

Brokers report that growing economic uncertainty has scared to the sidelines a lot of Wall Street investors. But they say there are still plenty of whom are waiting impatiently for banks to mark down the prices on housing projects that are repossessed.



The potential for giant closeout sale seems enormous in inland Southern California.

Riverside and San Bernardino counties recently contained 30,465 lots ready for construction, complete with utilities, streets, curbs and gutters, and much more residential land is in the approval pipeline, according to Metro Study, a Riverside real estate consulting firm.

Mark Boud, chief executive of Real Estate Economics, estimates that at least 70 percent of residential lots ready for building are in communities where home sales are slow. More than a quarter of actively selling communities also have lots for sale.

Some public home builders this year sold excess land to take tax write-offs of the losses against income they earned during the boom years.

Bargain hunters have been disappointed that banks have been generally unwilling to drop prices enough to attractive buyers.

“The spread between what is offered and what financial institutions want is huge,” said Randall Lewis, executive vice president of Upland-based Lewis Group of Companies, a major Inland land developer.

Lenders are overwhelmed by the sheer volume of construction loans that have gone bad, said Tom Reimers, president of Park Place Partners, a land broker in Irvine.

“They are like the crocodile that ate a gazelle. It takes them a while to digest it all,” Reimers said.

Economist Chris Thronberg said he believes banks also fear that by marking their land portfolios to market value they would be forced to acknowledge they are insolvent.

EXPECT MORE IN 2000

Most industry experts say the pace of distressed land sales will pick up in 2009 and 2010, when they expect the Federal Deposit Insurance Corporation will seize more failed banks and sell their assets.

John Burns, president of John Burns Real Estate Consulting, said investors are eager to see how the land portfolio at Rancho Cucamonga-based PFF Bank and Trust will be liquidated. PFF was recently taken over by the FDIC and sold to Minneapolis-based U.S. Bank.

Another discouragement for some would-be buyers is that most of the land that has become available has been in remote Inland areas such as Victorville, Hemet-San Jacinto and Banning-Beaumont. Burns said some public home-building companies are “chomping at the bit” to buy land that is sharply discounted and close to employment centers to catch a wave of first-time buyers looking for affordable houses near work. “In Chino Hills, not Victorville,” he said.

In transactions that have occurred in the Inland counties this year, lots ready for building were discounted 50 percent to 75 percent from their peak in 2004-2005, said Tom Doyle, a principal with land brokerage Whittlesey Doyle.

Park Place Partners reports that between 2005 and 2008 the cost of a finished residential lot in Temecula plummeted from \$270,000 to \$125,000.



Industry sources said in some cases finished lots in the Inland region have been sold for just a fraction of the cost of the seller's investment in utility lines and other infrastructure.

BARGAIN HUNTING

Some investors and developers have begun to wheel and deal.

Jim Lytle of the Rancon Group, a Murrieta-based real estate investor and developer, said since last year that company has closed four transactions in southwest Riverside County for a total of 1,103 lots at prices he says were a bargain. Three of the sellers were builders and one was a bank.

Lytle said the risk for Rancon and its financial partners is forecasting when the land they buy will attract builders. He said Rancon has lots in Menifee that it expects to begin selling to builders in December 2010 and others in Winchester for which it anticipates a

market in 2012.

Highpointe Communities aims to acquire distressed projects that can be sold early in the next home building upcycle, said the Aliso Viejo firm's chief executive, Steve Vliss.

Vliss said Highpointe bought a project called Spanish Walk from Taylor Morrison Homes. The project had 212 lots for affordably priced homes in the heart of Palm Desert. Highpointe bought the lots at a large discount, he said.

But when a housing rebound will occur is a moving target, Vliss said.

"We entered into 2008 believing the recovery was about 24 to 36 months away," he said, "and we end the year thinking it will be between 42 months and 48 months."



Most prospective buyers of finished lots such as these are waiting for pricing to fall.

“Brokers say growing economic uncertainty has scared a lot of Wall Street investors.”