



Home builders go bargain shopping

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After a more than a three-year absence, home builders are back competing aggressively for land in Inland Southern California, focusing on buying price-slashed, ready-to-build lots. It is a signal, say experts, that builders sense home prices have hit bottom and they are gearing up for a market rebound.

The event that real estate consultants say most clearly signaled renewed builder confidence was the marketing of 96 ready-to-build lots in the Eastvale community north of Norco along the I-15. The deal drew offers from the majority of large public home builders, according to The Hoffman Company, the broker representing the seller, J.P. Morgan Chase.

Before Standard Pacific was chosen as the buyer, the lots attracted 30 offers, including 10 above the asking price of \$105,000 per lot, said Jeff Meyers, principal of Meyers Builder Advisors, a real estate consulting firm.

The deluge of builder interest in the Eastvale property, which closed escrow a week ago, continued with sales of ready-to-build lots that also sparked multiple offers in Corona, Temecula and Riverside, said Hoffman Company principal Tom Dallape. "We have closed a lot of deals in the last 90 days," Dallape said.

The builders are driven by a desire to compete for a small, remaining supply of ready-to-build lots in areas

closest to employment centers and where they expect sales and home prices will rebound the quickest, said Dallape. Those buying lots now are planning to deliver new houses next spring, he said.

Public builders in the last three years have scaled back their expenses, built out existing projects, sold off their least desirable land and written off losses, said Meyers. So now they are cash heavy and ready to shop for deeply discounted lots that can support houses affordable to the sweet spot in today's market: first-time buyers.

"Just like they did coming out of the early '90s recession, they need a cheap land base so they can build smaller, affordable homes," said Russ Valone, owner of MarketPointe Realty, a San Diego-based real estate consulting firm.

Planning ahead

Mark Knorringa, chief executive of the Building Industry Association in Riverside County, said builders are reacting to an uptick in new home sales earlier this summer and making plans for the future.

"I would say many builders have recently become cautiously optimistic about the market's ability to begin a rebound," he said. He said local BIA members said at a recent meeting they had received approval from their



corporate offices to buy some property, mostly ready-to-build lots.

Lennar western regional president Jeff Roos said belief that home prices in Riverside and San Bernardino counties have stopped falling is a major reason why Lennar and other builders are shopping the region for finished lots. He said in the last 120 days Lennar has been able to reduce its sales incentives and even raise prices slightly at its Inland projects.

Builders have sold off much of their inventory of completed homes and are fast running out of “finished” lots in desirable locations, said Steve Johnson, who heads the Riverside office of MetroStudy, a national real estate research firm. Finished lots are those already graded, with curbs, gutters, streets and utilities required for new construction.

An obstacle for builders, Johnson said, is if they can’t convert raw land to finished lots without taking a loss when they sell homes. So builders are competing for lots already in buildable condition that banks have discounted after obtaining them from failed housing developments.

If no further slabs were poured for new homes, he said, the existing supply of completed new homes in the Inland counties would be sold in less than four months.

Hot Spots

Home builders hunting for bargains on bank-owned finished lots are especially interested in the I-15 corridor from Temecula through Rancho Cucamonga in the belief that homes built closer to employment centers will sell first in a market rebound, said Meyers.

“They are not going to Hemet or Yucaipa or Victorville or the Coachella Valley,” he said.

August Belmont, president of the Inland Empire

division of Standard Pacific, said before buying the 96 finished lots in Eastvale, Standard Pacific had not bought land on the open market in the two-county region since 2005.

“Prices have gotten to a point where they are starting to make sense for us and we think home prices have stabilized,” he said. But he added that he is not certain about the strength of the recovery and Standard Pacific will be very selective about any additional land purchases.

Belmont said Standard Pacific’s purchase agreement with Chase prevents him from disclosing what he paid for the Eastvale lots. But he said it was above the asking price but still half of what he would have had to pay at the top of the market four years ago.

Sandy Dunkin, Beazer Homes vice president for the western United States, said “we are absolutely looking at finished lots all over Southern California,” with highest interest in Riverside and San Bernardino counties, where she anticipates housing sales will be fueled by strong future employment growth.

“Building permits are increasing across the country and in every one of our markets we are seeing increased sales,” she said.

too risky for some

But Mike Van Daele, chief executive of privately held Riverside-based Van Daele Development, contends that the large public builders in their bidding wars are paying too much for finished lots in the Inland region, even though the prices are much lower than they were at the height of the housing boom.

Van Daele said for the public builders to see an acceptable return on investment, new home prices would have to rise by 10 percent over the next 18 months.

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Home building in Riverside and San Bernardino counties is especially risky, he said, because of high unemployment. The next three projects he plans to start will be in Orange County. “We just believe the market is much more stable there,” he said.

Future uncertainties, including a possible new wave of foreclosures and rising joblessness, make it too early to call a housing rebound, cautioned Randall Lewis, vice president of Lewis Operating Cos, a major Inland Southern California land developer.

Lewis said in the last two months he has received calls from builders who are seeking finished lots because they must prepare to market homes in 2010 and 2011. But he said developers like Lewis Operating Cos. will not invest in the creation of new lots until home prices rise, development costs fall and the economy strengthens.