

BusinessWeek

Looking for land in all the right places

By ALEX VEIGA (AP) – Nov 6, 2009

LOS ANGELES — The housing bust left homebuilders with plenty of red ink on their books as they walked away from swaths of land they no longer needed.

But now homebuilders are on the hunt again, vying for choice parcels even in foreclosure-riddled markets like Las Vegas, Southern California and Orlando, Fla., where prices are cheap and there are early signs of a recovery.

While not a full-blown land rush, experts point to a surge in land deals since early summer as home sales and prices began to stabilize. For the better lots, the competition is fueling bids well above the asking price.

“In the past (builders) had really been the ones that had been feeding the market and selling lots to investors,” said Tom Dallape, a principal at The Hoffman Co., a land brokerage firm based in Irvine, Calif. “Now all of a sudden they are rushing back in.”

Major players such as Ryland Group Inc. and Meritage Homes Corp., are among those that jumped into the fray.

Meritage recently signed contracts to buy 2,500 lots spread out over new communities in several states, including California. The builder plans to open nine new communities this year or early next.

This summer, Ryland bought land or signed option contracts to do so in several markets, including Indianapolis, Atlanta, Houston, Las Vegas and Baltimore.

“We are pursuing more deals than at any time in the past several years,” said CEO Larry Nicholson. Of course, not all builders are looking to expand their land stockpile.

Pulte Homes Inc., for example, has been more conservative. The builder added thousands of acres to its land holdings when it acquired rival Centex Corp. in August. And roughly half of those parcels are already primed for construction.

“We’re not one of those who need land,” said Richard Dugas, Pulte’s CEO. The timing of these land deals could also be risky.

“The stability we’ve seen has been nice, but it hasn’t been for long, only five or six months,” said Megan McGrath, an analyst with Barclays Capital. “There is certainly some risk that if the market tails off again or we start to see cancelations pick up, some of those deals that previously penciled may not pencil anymore.”

Still, with new home sales up 22 percent this year, builders have grown more confident in their ability to estimate what they should pay for land and expect to profit after construction costs.

Builders are primarily looking for land in areas that are already cleared for home construction. That way, they will be ready to build and sell in just a few months.

In May, Trumark Homes bought 39 lots in Upland, Calif., where it plans to build homes early next year. The Irvine-based company bought the land — which already had paved streets and utility connections ready for construction — for less money than the previous developer owed the bank.

The previous owner planned to build and sell homes in the \$500,000-range. Trumark’s homes will be priced \$200,000 less.

“We were able to get the land for free and the improvements they made we got at like 45 cents on the dollar,” said Michael Maples, Trumark’s chief executive. “The market changed.”