



Exclusive: Paulson and other smart money buying dirt

(Reuters) - Billionaire hedge fund investor John Paulson and other investors are bidding on land they will sell to lot-strapped homebuilders even as the housing market remains uncertain, according to sources familiar with the matter.

By KARI HAMANAKA, Staff Writer

HOUSING MARKET

A real estate recovery fund backed by Paulson will, with court approval, be the first bidder on a portfolio of land assets up for auction from bankrupt homebuilder TOUSA Inc (TOUSQ.PK), according to two sources with direct knowledge of the matter, who spoke about it on Wednesday and Thursday. They asked not to be named because they are also potential bidders.

TOUSA picked the Paulson entity to bid on a portfolio consisting of lots in various stages of development in Arizona, Colorado and Nevada.

To make their comeback, homebuilders, whose shares are up 72 percent from the March 2009 stock market bottom, are counting on acquiring land at distressed prices.

“Investors are starting to price in profitability,” said Barclays Capital analyst Megan McGrath said. “If we don’t see that in the next couple of quarters, it could frustrate investors who have been waiting for it.”

But even with a soft housing market, the supply of cheap land is limited. Banks that foreclosed on developers and property owners have been keeping lots on their books because to put them on the market would entail recognizing their losses and regulators are not forcing them to do so, said Jody Kahn of John Burns Real Estate Consulting based in Irvine, California.

Investors like Paulson are buying land because they recognize the demand from public builders who would benefit from increased supply and lower prices.



In January, TOUSA sold 5,449 lots in Florida to Starwood Land Ventures LLC for \$81 million after an auction in which a Paulson entity also participated.

Starwood later struck a deal to sell options on half of those lots to top three builder Lennar Corp (LEN.N).

Both TOUSA and Paulson declined to comment for this story.

LAND PRICE SPIKE

Prices on finished lots, those sought by builders because they can put a house on them faster than they can on raw land, are soaring especially in bubble states: Arizona, Nevada and California.

“If we take a piece of property to market we’re going to have every publicly traded homebuilder participate in a bid,” said Norm Scheel, a principal in the Hoffman Company, a California and Nevada land brokerage.

Between the first half of 2009, when Standard Pacific Corp (SPF.N) bought lots in a section of Riverside County, and the second half, when KB Home (KBH.N) got in, prices rose by about \$30,000, Scheel said. The average lot price there is \$160,000.

Standard Pacific could not be reached for comment. KB declined to comment.

In prime California markets, lots bottomed at \$85,000 and some are now going for \$150,000, said Tom Reimers, the California division president of brokerage Land Advisors Organization.

Likewise in Phoenix’s sought-after Southeast Valley section, where lots went for \$35,000 and \$45,000 two years ago, buyers are now paying in the mid \$70,000s, said broker Ryan Arp of Westland Properties Group.

Westland Properties has done deals with D.R. Horton (DHI.N), for example, which has bought lots for \$85,000.

Luxury builder Toll Brothers (TOL.N) has also bought lots for over \$70,000 per lot in the Phoenix area.

Toll declined to comment. Horton could not be reached for comment.



In Las Vegas, big builders are snapping up prime lots for as much as \$115,000 compared with an average price of between \$30,000 and \$50,000, said Rick Hildreth, a broker in Land Advisors' Las Vegas office.

“Competition has driven the prices up,” said Meritage Homes (MTH.N) spokesman Brent Anderson. “But there are still a lot of good deals. You just have to do your homework first.”

NEW STRATEGY

Price appreciation has forced builders to adapt, McGrath said.

When they were confident that a housing downturn would push land prices down as happened in past declines, they all said they would be very conservative regarding land. After all, they had only just finished dumping at loss parcels bought at peak prices during the boom.

They would minimize their risk, they said, by buying only ready-to-build lots in the best locations and on a rolling option basis that enabled them to put down a deposit instead of buying an entire parcel at once.

The builders have maintained their insistence on prime locations but have relaxed their other requirements, say the land brokers.

They are buying bigger positions, in cash, and are increasingly starting to look at land they will need to improve before they can build on it.

“Their mentality has morphed,” said Land Advisors' Reimers. “First they were saying they'd be really good stewards of the balance sheet. Then they realized they couldn't make deals happen with any regularity, because of the banks.”