



Land sales leading recovery in housing market and why you should care

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You still may not be able to find a buyer for your house that sits wilting on the market, but don't be surprised if that large empty tract of land down the road is getting plenty of attention.

While the existing home sales market is just beginning to show fluttering signs of life, things are booming in the land sales sector.

The truth is, land has been the key all along. Even when home prices were leapfrogging their way to the stratosphere, it wasn't the structures that were increasing in value, it was the land those structures sat on. Why land? The old saw is true: Land is valuable because they aren't making any more of it.

What's happening now is therefore significant, even for home owners whose lot size can barely fit a tomato plant. Big builders, thanks to cost-cutting, tax breaks and asset sales, aren't in terrible shape these days. In fact, about a year ago, they got back up on the horses that threw them and began buying land. With land prices so low, competition ensued among the big builders and now land prices are sizzling hot -- increasing monthly, even weekly in some places.

From a big builder's perspective, the future is looking bright and now is the time to invest. In parts of Florida and Southern California, where prices were hit by the recessionary tsunami, some construction-ready lots are up in price more than 50% from their 2009 lows, according to a Bloomberg analysis.

Land Advisors Organization reports that in the fourth quarter of 2005, the average lot price was \$285,000. This fell to a low of \$103,000 in the first quarter of 2009 -- a 64% drop. But first quarter 2010 average lot prices were \$170,000 -- up 65% from the year before low. Those figures appear typical. The Hoffman Company posts similar land pricing data and consistently shows current land prices of almost 70% off their peak sales. Hoffman is one of the oldest and most widely recognized land brokerage firms in Southern California and Nevada. Tom Dallape, a Hoffman principal, said that between August 2009 and December 2009, he saw land prices double in the Inland Empire of Southern California.



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The land-buying snowball rolling when finished lots hit the market at below the costs of improvements. A finished lot is one that has been graded and improvements such as water and sewer lines have been installed and sidewalks paved. Builders could buy those lots with some confidence that they'd make a profit. And thus things got rolling.

And not just in the United States. In October 2009, PropertyWire reported that the price of residential development land in the United Kingdom had stopped falling, and in fact, had risen in value by 3.6% in the third quarter of that year after two years of drops that cut land values in half.

So how hot is the land market? Last year, the Scottsdale developer DMB Associates bought up about 400 lots in a master-planned community in Buckeye, Arizona that builders had acquired and then defaulted on. DMB paid about \$15,000 a lot and then resold 300 of them to other builders for an average of \$40,000 per lot.

Michael Canfield is senior vice president of Foremost Communities, which has purchased almost 1,000 lots in Southern California over the past year, including 422 unimproved lots in Ontario, Calif., and 217 finished lots in Riverside, Calif. Canfield says that builders began dumping lots 18 to 24 months ago to take advantage of tax laws in place. Now they are back in the market competing to buy them. It's a good thing for existing home sales, he said, because builders are careful students of the market's trends. "And the fact that they are buying up lots now and are concerned that in six months those same lots may be unaffordable to them," Canfield says, "suggests a confidence in the return of the market."

Jason Kliever, partner and general counsel for Trumark Homes based in Irvine, California, calls California's Riverside County "Ground Zero" for the land recovery. "Anywhere in western Riverside, all of Orange County and the core parts of Los Angeles are good investments right now," he said.

Tom Reimers, president of the California division of Land Advisors Organization, says the uptick in land prices are a direct result of the intense competition -- most of which is coming from the large, publicly traded home-building companies. Less fortunate are the small builders, who account for about 70% of the total market. The decline in land prices wiped many of them out. The National Assn. of Home Builders says membership has dropped by about 20% or 45,000. Banks have been tougher on small builders, refusing to extend credit and tightening the terms on existing credit.