

THE WALL STREET JOURNAL

KB Home Buys in Inland Empire

By *ROBBIE WHELAN*

Builder KB Home snapped up 664 partially finished lots in California's Inland Empire, a sign that one of the nation's biggest boom-to-bust markets is coming back to life.

KB Home, set to release its second-quarter results later this month, wouldn't say how much it paid for the land—490 home sites in Riverside County's Eastvale community and 174 in San Bernadino County's North Fontana. The Lewis Operating Corp., a master planner with projects in California and Nevada, was the seller.

California-based KB Home, one of the nation's largest builders, has made land purchases a priority nationwide. It earmarked more than \$600 million this year for buying and developing land, company treasurer Kelly Masuda said at a presentation Thursday.

"The acquisition strategy is at work across all of our markets, whether it's Jacksonville, Houston, Las Vegas, San Diego or Northern California," he said. "We have been able to acquire finished lots and quickly to turn them into revenue producing communities in less than six months."

In the recent California deal, **Tom Dallape**, a principal with Irvine, Calif., brokerage **The Hoffman Company** said lots in the Inland Empire are making a comeback, fetching prices of as much as

\$180,000 apiece. He estimated that the KB-Lewis deal was worth about \$50 million, or roughly \$100,000 a lot. KB Home wouldn't comment on the figure.

The lots KB Home purchased are known as "blue-top"—or home sites that have been graded and entitled with the proper zoning and building permissions, but aren't served by complete roads and other infrastructure. Land development in California can be a multiyear process, adding value to sites that are already entitled and even partially developed.

To be sure, land prices in the Inland Empire are still off about 30% from the peak, when finished lots sold for about \$260,000 for a typical, 7,000-square-foot home site with road infrastructure in place. The land prices dipped into the \$140,000 range when the overbuilt California market crashed.

Even so, builders are scrambling to close deals on finished lots ready for construction while prices remain low. Richmond American Homes, the trade name of publicly traded builder M.D.C. Holdings Inc., has closed 27 deals on finished lots in the past six months. KB Home has closed 22 deals, usually for about 50 to 100 lots at a time, in that same period, according to national market-research firm Metrostudy.

Larger land purchases are tough, Mr. Masuda said. “It’s been difficult to be more competitive because there are a lot more bidders,” he said. “The land market for 50, 150-lot opportunities are really based on local market relationships.”

With buying interest renewed, the supply of finished lots for sale in the Inland Empire has dropped 20% to 20,000 in the past year, according to Metrostudy, and Hoffman estimates that 70% of those lots are controlled by builders waiting to start new homes.

Many of these homes will be smaller than the 4,000 square-foot showpieces built during the boom. Builders are concentrating on first-time buyers, who aren’t saddled with an existing home to sell and can typically only afford a smaller home. An \$8,000 federal tax credit for these buyers expired at the end of April, but California still offers a \$10,000 tax credit that continues fueling sales.

“They’re going to continue to build smaller product, with more efficient cost, and they’ll keep buying land at below manufacturing cost,” said Steve Johnson, Metrostudy’s director for Southern California. “All of that combined is helping build product that we haven’t seen in California in 20 years.”

The Inland Empire has historically been one of the most important growth markets for many builders in California, as low land costs allowed builders to quickly erect housing cheaply and sell it to middle-class families with jobs in the nearby economic centers of Los Angeles, Orange County and the San Gabriel Valley.

But the party ended as the housing boom tapered off in 2007 and 2008. Plunging home values fed the foreclosure crisis. According to RealtyTrac Inc., one in 133 homes in the Inland Empire has a foreclosure filing on it as of April—the fifth-highest foreclosure rate in the nation—and in March, mortgage-research firm First American CoreLogic said that the nearly 20% of home loans in the Riverside-San Bernadino-Ontario area were at least 90 days late.

KB Home plans to build more of its Open Series design—a scaled-back, more efficient model introduced last year to compete with bargain-priced foreclosures. The simplified product, praised by analysts, now makes up more than half of the KB Homes sold nationwide.

Steve Ruffner, president of KB Home’s Southern California division, said prices for the homes at Eastvale and North Fontana haven’t yet been set, but noted that the Open Series homes at the Alpine at Willow Ranch development, near Eastvale, sell for between \$309,000 and \$369,000.

“It’s not a new strategy to be building in the Inland Empire,” Mr. Ruffner said, but it has been several years since KB made a large-scale acquisition like this one. “Right now, affordability is as high as it’s ever been,” Mr. Ruffner added.

—Dawn Wotapka contributed to this article.