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LAND SALES PICK UP

Brokers and lenders see a better market for open land and finished lots now that prices are starting to drop. **The Hoffman Co.** reports a significant increase in land transactions this fall, with the sharpest price drops in the Inland Empire and northern Los Angeles County. **Norm Scheel**, principal at The Hoffman Co., believes the land market is starting to hit its sweet spot. Most of the initial sales have been to smaller investors, who entered the market early to avoid future competition.

Broker **Whittlesey Doyle Inc.** is seeing much the same situation, with small private investors now looking for opportunities in the land market. **Tom Doyle**, founder and principal of Whittlesey Doyle, believes that recent notices of default on land purchases by large investors will put downward pressure on land prices. The broker currently has listings for five acres in Palm Springs and 127 blue-top lots at the **Terra Bella II** development in Menifee. **Trimark Pacific Homes** is the builder of the initial Terra Bella project.

O'Donnell/Atkins Co. reports that developers of master-planned communities, including SunCal Cos. and **John Laing Homes**, have generally held the line on lot

pricing. But O'Donnell/Atkins SVP **Steve Jones** expects to see more distressed sales in 2008. He also thinks it is likely to see more large investors, including public companies, buying property next year. Recent interest in land has come from private equity groups spending \$4M to \$6M for generally small-sized properties.

Traditionally, larger investment companies wait until prices hit rock bottom to enter the market. Later, if demand picks up for new homes, homebuilders jump back into the land market to fortify their supplies again. Most of the builders currently purchasing land are smaller private firms. However, **Taylor Woodrow Homes** is one builder that is remaining active in buying real estate.

Better land deals have attracted a new company, **LandCap Partners**, that will source land and then provide funds to builders for land and land development. The company has \$350M in initial equity to leverage into as much as \$1B in funding. LandCap will invest in strategic markets throughout the U.S., including California. Another company, **Scala Real Estate Partners**, recently announced a \$200M program to acquire, develop or recapital-

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ize residential and mixed-use development projects in California. Scala will partner with builders and residential developers to jointly provide capital for the purchases.

Hoffman Co. believes that when land prices hit rock bottom, a torrent of land deals will follow. That will in turn drive up land values and prices investors pay, which is why smaller investors are buying land now before supplies tighten again. Finished lot values have already fallen 35% to 40% in parts of the Inland Empire. Even with the home market slumping, investors will take advantage of land deals while planning for construction three or four years from now.

But some landowner/developers will be reluctant to sell large chunks of land for which they paid top dollar a few years ago. They may wait a few years to sell rather than take a loss now.

Hoffman brokers properties that range from approximately 40 acres to 600 acres. Parcels totaling 40 acres have become more common. Hoffman also arranges for sales of finished lots. As large, individually owned parcels of land become scarcer, the broker's job has become more of an as-

sembler. The broker must work with 10 to 20 landowners to provide a large piece of land for a buyer.

Also becoming more common are builders acquiring options for 200 or 300 lots and then purchasing a portion of the optioned lots each year. The process is known as a "take structure." The idea is to only roll out about 30 lots a year for home construction, helping to keep inventory under control. Two years ago it was more usual for builders to pay cash for 200 lots.

Some landowners are pressured to sell their finished lots at a hefty reduction in order to prevent previously-acquired entitlements from expiring on the land. If the lots must go through the entitlement process again, it will cost more money and time. The Hoffman Co. expects to remain busy in its prime areas: Los Angeles, Riverside and San Bernardino counties.

O'Donnell Atkins Co. has 21 land deals under contract. Most of its closings lately have been with builders of apartments and mixed-use developments. The company expects all types of land deals to pick up over the next few years.

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