



Land Prices Hit Five-Year Low in Southern California

Builders aren't buying real estate, which in some markets now sells for half what it fetched in 2005.

By John Caulfield

Prices for finished lots in the Antelope Valley and Inland Empire areas of southern California are now significantly below what developers and owners were asking two years ago, and in some markets prices have fallen to levels not seen since 2002, according to a report released this week. Some industry watchers suggest such a trend could set the stage for more affordable new homes, which might help revive buyer demand over the next few years.

The Hoffman Company, an Irvine, Calif.-based land brokerage, issued the report on Monday, comparing lot prices in the fourth quarters of 2007 and 2005 in North Los Angeles, Riverside, and San Bernardino counties.

Based on transactions and its own research, Hoffman estimates that prices for 7,200-square-foot finished lots in seven markets in North Los Angeles County are down, on average, by 26.3 percent to \$150,000. In 14 San Bernardino markets, prices have fallen 37.2 percent, to \$226,536, while prices in 15 Riverside cities are off by 41.8 percent, to \$124,667.

Norm Scheel, a principal with Hoffman, tells Builder ONLINE that the majority of the pullback in land prices occurred this year, which he attributes primarily to a "lack of need" among home builders that are themselves selling land and walking away from options.

"Home builders seem to be doing two things," says Scheel, "preserving capital and burning inventory."

Some cities, such as Chino and French Valley in Riverside County, have seen lot prices fall 52 percent since 2005. Even in North Los Angeles County, which historically is less expensive than the other two, prices in West Palmdale and East Lancaster are off by more than 38 percent.

Builders and real estate analysts corroborate the brokerage's findings, although they warn that because so few land deals are happening now, any estimates are bound to be anecdotal.

"Land prices are coming down, but there are land buyers out there," says John

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Gabbard, land acquisition manager for The Ryland Group's southern California division, which hasn't purchased land since 2005. "If you are in an A or B location, there are more than enough people who are willing to take property off of your hands."

Whether reduced lot prices leave the door open for private equity to swoop in and pick up bargains is another matter. Scheel notes that most buyers right now are individuals spending their own money on deals in the \$10 million range.

Gary Painter, director of research for the Lusk Center of Real Estate at the University of Southern California, says he's hearing more buzz about big investors forming equity funds to purchase real estate debt that "was clearly mispriced" too high. "A lot of the distressed land is residential, which private equity has stayed away from," Painter says.

Other investors might also be biding their time as builders close their books on the current fiscal year and put land up for sale, further dragging down prices. Scheel says Hoffman is working with several publicly traded builders, which he declines to name, and suggests that a number of land deals are imminent by the end of 2007 or beginning of 2008.

Scheel also believes that Lennar's recent sale of 11,000 acres to Morgan Stanley could serve as a catalyst for future land deals.

Other analysts agree, although no one thinks near-term deals will be as large as the \$525 million Lennar-Morgan Stanley joint venture. "There will be a variety of tactical approaches that will allow builders to get nonperforming assets off of their balance sheets, but also allow them to get back into the game quicker," predicts Stuart Gabriel, director of the Ziman Center for Real Estate at UCLA's Anderson School of Management. "I'm not convinced, though, that the structure of these deals will resemble Lennar's."

The Lennar-Morgan Stanley deal gives the builder 20 percent ownership of the venture, pays it management fees, and gives it first dibs on finished lots.

Gabriel believes that as land prices continue to fall, one result could be that "house prices will come down to levels that are more consistent with incomes."

Scheel also sees this correlation, and expects to see smaller houses on smaller lots going forward. "Affordability is a big buzzword out here."

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