



Suburban Sacramento land rush? Big homebuilders buy up 'finished' lots

By Jim Wasserman

jwasserman@sacbee.com

Published: Friday, Aug. 14, 2009 - 12:00 am | Page 1A

Last Modified: Friday, Aug. 14, 2009 - 12:53 pm

Sacramento's new-home sales are still down and out, but some capital-area builders are betting money that the region's suburbs will soon resume their growth boom.

They've begun snapping up ready-to-build home lots at prices ranging from \$25,000 to \$67,000, setting the stage for a new suburban land rush.

The phenomenon suggests that a real estate market in decline for four years may be resetting for a new business cycle, some say.

Builders looking for land are focusing on "finished" lots, which already have government approvals, streets and utilities.

"They just have to pour a slab and start building," said Kathryn Boyce, Sacramento analyst for Costa Mesa consultant Hanley Wood Market Intelligence.

Capital-area builders say prices for finished lots have risen 20 percent since April as giant public builders muscle back into the region's land game for the first time since 2005.

Boyce said the land rush is greatest in Placer County, followed by Folsom and Elk Grove.

Hanley Wood counts 17,251 finished lots in El Dorado, Placer, Sacramento, Sutter, Yolo and Yuba counties. Many are owned by lenders that repossessed them. Others are owned by development firms that need to raise cash. Investors own still more.

The recent escalation in land prices has led some in the industry to question whether they can make money when so many homes are priced at \$250,000 or less.

"Prices might be going up too fast," said Tim Lewis, owner of Roseville-based Tim Lewis Communities.

Lewis recently bought lots at two projects in the capital region and one in Reno – his first in that city. "I'm cautiously looking at projects, but I'm certainly not on a buying frenzy like some of these publics (publicly traded builders) might be," he said.

Even with the recent rise, land prices in the Sacramento region are nowhere near the dizzying levels of five years ago. At the height of the real estate boom in 2004, builders paid up to \$150,000 for finished lots in Roseville, and up to \$120,000 in Natomas and Elk Grove.

Still, the renewed scouting and buying by building giants has sent a buzz through an industry that has endured prolonged downsizing and financial trauma.

"There is a consensus out there that we are at the bottom or pretty darn close," said James Radler, a Roseville-based land broker with Park Place Land Advisors of Irvine.

Radler and others say publicly traded home builders such as Los Angeles-based KB Home, Texas-based D.R. Horton, New Jersey's K. Hovnanian Homes and Meritage Homes, headquartered in Arizona, are among those looking at lots and buying. Others in the game include private Arizona-based building giant Taylor Morrison. All are among the capital region's top builders.

"These guys need lots," Radler said. "If they don't do deals, they don't build homes, and if they don't build homes they aren't in business."

Most of the builders didn't respond to Bee inquiries, which is not surprising, say those who watch the industry. Said Boyce, "They're trying to position themselves without anybody knowing."

"They all want to be under the radar as much as they can," added Dean Wehrli, vice president and Sacramento analyst for Sullivan Group Real Estate Advisors of San Diego.

During the housing downturn that began after area home prices peaked four years ago this month, many large builders sold off home lots to maintain balance sheets. A few closed down divisions and left the area. Now, though capital-area home building remains sluggish – just 1,764 sales the first half of 2009 – firms are competing again for lots in a market they expect to begin rising as early as 2010.

Industry analysts say big Wall Street home builders, especially, need more lots to keep operations going while waiting for a new cycle.

"They essentially haven't done any buying for four years," said Radler.

The supply of lots is also constrained by the closing of Natomas to new building permits through 2011. That region, popular with buyers and builders for much of this decade, is under a building-permit moratorium until levee fixes bring 100-year flood protection.

Call The Bee's Jim Wasserman, (916) 321-1102. Read his blog on real estate, Home Front, at www.sacbee.com/blogs.