

# THE WALL STREET JOURNAL

## Land Prices Jump as Home Builders Move In

By **DAWN WOTAPKA**

April 21, 2010 | REAL ESTATE

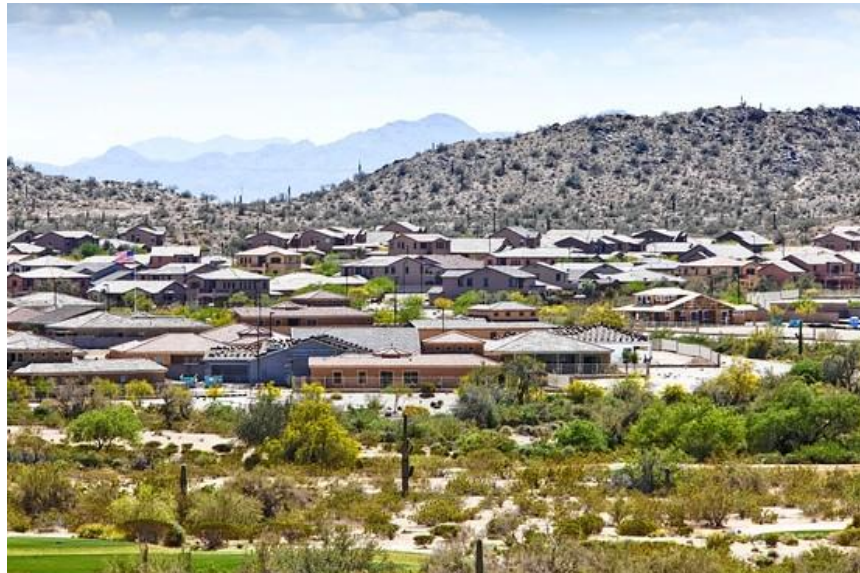
Foreclosures and depressed prices are still hammering the Phoenix housing market. Yet home builder PulteGroup Inc. this month had to fight off six other bidders to win land in the suburb of Gilbert.

In Arizona and across the U.S., home builders are battling to acquire land lots in preparation for ramping up home construction. While volume is tough to track, analysts report that land deals have been rising rapidly in recent months, causing land prices in some of the nation's weakest housing markets to rise for the first time since 2006.

"There's been an absolute land rush," said Gregor Watson, a partner with McKinley Partners, a California-based real-estate fund that works with builders.

That marks a big shift from the downturn, when builders halted development and liquidated land for pennies on the dollar. Now the companies are spending millions of dollars to boost their land supply, optimistic that sales will pick up once the employment picture improves. But the push is creating some concerns about whether builders could be overreaching.

Below, land that was recently sold in Goodyear, Ariz. Home builders across the U.S. are scrambling to acquire land lots in preparation for ramping up construction.



Builders are particularly interested in finished lots, land with improvements such as sewers and streets in place. That allows for homes to be constructed quickly. The companies are also focusing on suburban locations within easy commuting distances of city centers and employment hubs.

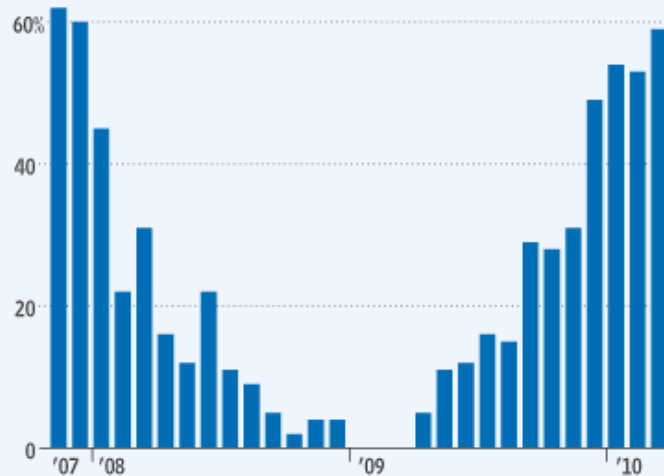
Those factors were all in play in Gilbert, where Pulte this month beat out the other bidders to purchase 88 lots from an investor group. The price was reportedly about \$5.7 million. Pulte, the nation's largest builder, aims to start building model homes in the community, named Lyon's Gate, this fall, the company said.

The recent deal was the builder's second purchase there in recent months: It acquired 107 lots nearby for an undisclosed price in October.

Nationally, finished-lot prices, which saw low-single digit increases in the first quarter, are up nearly 20%

### Bouncing Back

Percentage of contacts surveyed who believe land prices have reached a trough.



Market summary of changes in finished-lot prices versus the trough

21% to 40% above trough		>40% above trough
San Francisco Bay Area	Sacramento	Phoenix
Central Valley	San Diego	Riverside-San Bernardino, Calif.
Los Angeles	Southeast Florida	
Orlando	Southwest Florida	
Raleigh-Durham	Tampa	

Source: Zelman & Associates Private Land Developer Survey - March 2010

from the trough, largely considered early 2009, according to a land survey released this week by housing-research firm Zelman & Associates. Lot prices in Phoenix and Southern California's Inland Empire have soared more than 60%. Sacramento, Orlando and Los Angeles are up between 30% and 40%.

**Nationally, the best-located lots are commanding double what they would have a year earlier, said Greg Vogel, chief executive of Land Advisors Organization, a national land brokerage firm based in Scottsdale, Arizona.**

"We're talking about a significant turn here," said Jim McNeil, chairman of law firm Akerman Senterfitt's national residential development practice that represents several public and private builders. "The builders think this thing has turned and they're making sizeable investments in both finished lots and raw land."

And while builders are recovering from the worst downturn in generations, money

doesn't appear to be a problem, at least for some of the large public builders. As home sales collapsed, builders slashed staff and hoarded money. Now, several—including Pulte, [KB Home](#) and Toll Brothers Inc.—boast more than \$1 billion in cash. Also, 16 home builders estimate they are due tax refunds totaling more than \$2.6 billion, thanks to a part of the economic-stimulus bill.

Toll has spent about \$100 million on some 3,000 home sites since November and is actively "searching for additional opportunities" nationwide, said Fred Cooper, senior vice president of finance. And Standard Pacific Corp. plans to spend as much as \$400 million on land deals this year, up from \$64 million last year.

"Our strategy is to overbuy in this 24-month window" before home prices start to rise, said Ken Campbell, Standard Pacific's chief executive.

Still, on a conference call Monday, he sought to reassure analysts and investors that Standard Pacific is being prudent. And given that builders have been stung by overpaying for land in the past, industry watchers are keeping an eye on prices.

"The market has been so depressed, there really hasn't been much fear of builders overpaying," said Stephen Kim, associate portfolio manager with Alpine Mutual Funds. "But just recently, in the last three months, there has been a flurry of land acquisition. You're starting to hear some concern that the builders might be starting to overpay."

Such activity is welcome, though, at Estrella, a 12,000-acre master-planned project in Goodyear, Ariz., being developed by Newland Communities. This year, it has four signed land contracts and two more deals in the works, said Chief Executive Bob McLeod. The price for the two latest deals, covering some 140 lots, is up 33% from a year ago.

"There's been a strong renewed interest in every area we're in, whether it's Tampa, Atlanta, or Raleigh-Durham-Chapel Hill or Phoenix," he said.

*Write to Dawn Wotapka at [dawn.wotapka@dowjones.com](mailto:dawn.wotapka@dowjones.com)*