

Crittenden BuildersReport™

Crittenden Publishing, P.O. Box 1150, Novato, CA 94948

Customer Service (800) 421-3483

Vol. 9, No. 26

July 14, 2008

LAND: IT'S COMPLICATED

Investors, developers and land developers remain on the prowl for discounted land deals with some regions more vulnerable than others. Land values plummet as much as 70% in some areas of California as home builders attempt to offload inactive land inventory. Phoenix remains a target for distressed land, future expansion and builder unloading. **Newland Communities** racks up more than 40 land projects as it expands into 14 states across the country. **The Hoffman Company** sees investors ready to enter the game rather than sit back and watch in anticipation of fallout pricing. **D.R. Stephens & Company** looks to invest in single-family residential land on the West Coast in 2009/2010 and may find opportunity next year in the Phoenix market as land values move downward. **Land Co. Development Resources Inc.** manages projects through the entitlement and development process for home builders such as Richmond American Homes and Lennar Corp. **Strategic Land Advisors** (SLA) hones in on land efficiency plans for land developers and home builders such as Hovnanian Enterprises Inc. and Shea Homes.

Builders and investors seize upon distressed land sales in order to eventually build homes on less expensive land, which will allow construction of more affordable homes. Lots that once sold for \$210K in the Antelope Valley, Calif., now sell for \$130K. Builders cut land inventory in nearly every market nationwide. D.R. Horton's land inventory is down 50% from its peak of 396,000 lots in spring 2006 and KB Home reduced total lots owned by 68% from a peak of 186,300 lots in Q1 2006. Idle land is up for grabs. Builders take impairments on land inventory with the top 15 home builders racking up \$21B in impairment charges on land inventory, land options and JVs. Investors look to purchase distressed land, sit on it for a few years and sell at a profit. **Centex Corp.** recently sold approximately 8,500 lots in 11 states — nearly 10% of its entire land inventory — to a JV led by RSF Partners of Dallas for \$161M. Land is out there to be had at discounts.

Newland Communities believes in long-term land acquisition strategies such as its investment in the **MPC Estrella** in Goodyear, Ariz., where the company buys an additional 3,000 acres for about \$51M, approximately \$17,000/acre. The purchase ups the private company's ownership to 12,500 acres, 5,000 of which are being developed.

Continued On Page 7

LAND: IT'S COMPLICATED...

Continued From Page 5

Newland Chairman and CEO **Robert McLeod** expects Estrella will reach buildout in 25 years. Newland took its first bite out of Estrella in 2005 with a purchase of 3,750 acres of the 20,000-acre MPC. The purchase price buzz came in at about \$250M, one of the largest land deals in Arizona history at the time. Newland's MPC expertise draws in such investors as the California Public Employees Retirement System (CalPERS), which began its Newland investment with \$60M in the mid- to late 1990s. McLeod banks on the Phoenix market to turn around because of strong population and job growth potential. Western Region President **Greg Bielli** looks at the long-term prospects of Goodyear reaching far beyond today's current market correction. Newland watches for land deals across the country to create residential and urban mixed-use communities. Another project is the 61-acre urban mixed-use community of **Union Park**, in Downtown Las Vegas. Union Park includes mid- and high-rise condos.

The Hoffman Company Principal **Norm Scheel** finds the biggest change in today's land market is that there are now multiple buyers for Hoffman's properties, which gives the seller an option unavailable one year ago. He specializes in residential land sales to home builders and land developers throughout California. VP **Graham Gilles** expects more land sales in 2008 after an indecisive 2007. Scheel observes home builders approach the land brokerage company on a daily basis to offload land. Recent transactions include 60 acres of undeveloped land in Palmdale, Los Angeles County, sold by **Fieldstone Homes** to Antelope Valley Community College; **D.R. Horton** sold 163 finished lots in Palmdale to a private investor from Orange County; **Hillcrest Homes** sold 92 single-family detached home lots in Oceanside, San Diego County, for \$6.5M to a start-up builder from Arizona; **Richmond American** sold 184 lots — graded and semi-improved — in Moreno Valley, Riverside County, to **Richland Communities**, which focuses on California and Florida. Individual landowners sell land and small groups of real estate investors buy land in such desert areas as Barstow, San Bernardino County, where 259 acres of raw land were scooped up. These five transactions amount to almost \$28M with sale prices ranging from \$3.5M to \$6.85M.

D.R. Stephens President **Donald Stephens** anticipates working with lenders on the East Coast to invest in land next year. The company aims for deals that bring four to five times ROI. Stephens is no stranger to buying distressed land during slowdowns. His company purchased distressed land in the Bay Area, Sacramento and Central Valley at a 60% to 70% discount in the early 1990s. He sold it six to seven years later to local builders, including Reynen & Bardis.

Land Co. helps home builders find land in areas that include the L.A. Metro and Inland Empire markets — from Victorville to Menifee — where land can be purchased at a 20% to 30% discount. President **Billy Chen** observes builders are again focusing on what they are familiar with — acquisitions as opposed to trying to be developers. Among clients are Centex, **SunCal** and D.R. Horton. Land Co. assists assets managers and landowners with purchasing distressed properties in The Golden State by expediting the entire entitlement and development procedure — often completing the process in three days compared to the more normal 10 days. The one-year-old company counts on its relationships, contacts and awareness of pitfalls to achieve quick turnarounds.

SLA Partner **Barry Gross** thinks that builders may have overpaid for land back in 2005/2006 but at the time thought it was money well spent. Managing Partner **Paul Grover** believes land is a complicated commodity and builders need to know their markets well and familiarize themselves with their buyer. SLA helps land developers and home builders — including Lennar Corp. and Fieldstone Homes — protect their investments through due diligence service and in-depth analysis in order for builders to make an informed decision regarding property values. Gross recommends how to improve land efficiency plans by reducing expansion expenditures: bottom line to maximize profit.