

Real estate quarterly:

Prospective buyers eye land bargains

By [Brian Wargo \(contact\)](#), In Business reporter

Fri, Oct 30, 2009 (3 a.m.)

The new-home market may be in the tank in Las Vegas, but that hasn't stopped builders and investment groups from eyeing finished lots and other developable land at bargain-basement prices.

Sales in the new-home market through the third quarter are down 57 percent from 2008, and building permits are down 48 percent.

Analysts project fewer than 5,000 new homes will be sold in 2009.

A limited supply of finished or nearly finished lots have prompted builders and investors to begin accumulating lots.

By Home Builders Research and Hoffman Co. estimates, there are 17,500 finished lots of which 2,500 lots are available to purchase now. The other lots are being held by builders, investors or banks who will put them on the market at a later date.

"Land is changing hands in Las Vegas at a faster pace than anytime in the past three years, and prices are inching upward," said Cameron Fowler, a broker at Hoffman, a California land broker that recently opened an office in Las Vegas.

"We have seen a lot more attention in the market for finished lots, and that has heated up dramatically over the past two months," Fowler said. "Builders are becoming concerned it will dry up."

Builders control about two to three years of lots based on the existing market, but it's even less than that if the new-home market improves, said Ken Perlman, vice president for Sullivan Group Real Estate Advisors in San Diego.

"The interesting thing we are starting to see is the emergence of land bankers in this market," Perlman said. "That is something we have not seen in a really long time. There are groups out there that feel there are deals to be had on land."

Homebuilders in the market for finished lots include KB Home, Richmond American, DR Horton and Harmony Homes, said Dennis Smith, president of Home Builders Research. Many builders dumped lots two to three years ago when they weren't needed and are back buying today, he said.

"It is a hot spot in the market right now," Smith said. "The builders who are currently buying finished lots are taking advantage of a window of opportunity. The current market for finished lot prices is

\$25,000 to \$45,000 per lot depending on the location and size. At these prices, entry-level homes can be sold for under \$100 per square foot in most cases, allowing builders to complete with resale or foreclosure homes.”

At the peak of the market about three years ago, it was rare to find a finished lot for less than \$100,000, Smith said.

Investor groups that are buying lots are doing so with the intent of holding them three to five years, but they may speed that up if builders need lots more quickly, Smith said.

“When the market returns, which (the land investment groups) perceive will be in 2010 and 2011, they will be able to hit the ground running when some of these builders run out of lots,” Perlman said.

At a Hanley Wood developer conference this month in Las Vegas, investor groups and analysts said Southern Nevada has been on the radar to start purchasing land.

“The world has changed in the last two or three months,” said Michael Forsum, west region president of Starwood Land Ventures in Scottsdale, Ariz. “In the blink of an eye, builders were as nervous as can be, but look at what these builders are doing now — they are jumping right in. That was surprising to me. I thought builders would tiptoe back into the market and take small little bits.”

Richard Gollis, principal of the Concord Group, a California-based real estate consulting group, said transactions are taking place in California and Las Vegas in the \$1.5 million to \$3 million range where there might be four to five houses under construction and 20 lots, including some that are not finished.

“Some of the bigger transactions have jumped over the investors and in some cases lot prices have gone up 40 to 50 to 60 percent,” Gollis said.

Although builders are focusing primarily on finished lots, investor groups are acquiring land that is zoned and mapped — what Gollis refers to as paper lots. Those lots require infrastructure improvements such as water and sewer lines, he said.

Gollis and builders and investors realize that the Las Vegas new-home market is starting to stabilize, with prices holding steady and sales no longer dropping.

Gollis said his study shows Las Vegas has a combined 32,000 finished lots, unsold new homes and foreclosed homes built in the last five years. That translates to less than a one-year supply during the peak of the housing market, Gollis said.

“What that means it is going to take the recovery of the job market and two years before we need to develop any new lots in the market,” Gollis said. “We have enough finished lots ready to go in the market today. But it takes a year or two to develop them so within the next six months we need to be developing new lots because we will need to have them by mid-2011. That’s why investors are looking at paper lots.”

Much of the interest is for 40 to 50 lots, but there are opportunities for deals as large as 200 to 400 lots, Forsum said.

“Over the long term, everybody is a strong believer in the Las Vegas market,” Forsum said. “People want to have positions of significance, and it’s just at this stage of the game with where the economy is, the big land plays have not started.”

The investors aren't looking at large tracts of raw land, including the master-planned communities such as Kyle Canyon that were foreclosed upon by lenders after builders defaulted on loan payments.

First, lenders aren't selling large tracts because there is an unwillingness to pay much for undeveloped land in outlying areas that are years away from having homes built on them, Gollis said.

Although no one expected the federal government to auction off large tracts of land anytime soon, Smith said the acquisition of the finished lots opens the door for the purchase of other raw land. It costs about \$40,000 to \$50,000 to improve a lot, Smith said.

"Raw land now has a value where four to six months ago, no one could say that," Smith said.

Builders are willing to pay more than investors because they are the end users of the properties, Fowler said. Investors try to build in a 20 percent profit margin.

Builders are striking deals with developers because they may only need to 12 to 15 lots a month and want to save their cash and not tie it up in land, he said.

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