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Working on a comeback

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OK, it's no big secret that the housing industry is anything but rosy right now. The only way you couldn't know is if you were visiting another planet, or if you somehow managed to avoid any contact with the mass media. Thanks to them, we are bombarded daily with the unpleasant statistics of a failing new-home market. But what the mass media neglects to treat with equal enthusiasm are the positive efforts being put forth by most of the new homebuilders, building associations and local jurisdictions – all working in concert to hasten the recovery of the new-home industry, locally and nationwide, as well.

Most builders agree in order to move forward it will be necessary to make some changes in their strategic plan. "Ours is a flowing strategy because the market is still changing right now," comments Bryan Swindell, division president, Centex Homes, Inland Empire.

"In my opinion, the market has not yet hit bottom in the Inland Empire. The first strategy is that we have to

become more affordable with our homes. Affordability in the run-up or the good market got out of balance with what people's incomes could afford. So, what you'll see Centex Homes doing is offering smaller plans and higher density neighborhoods to hit affordable numbers where people, under normal mortgage guidelines, can afford to purchase a home.

"To consider a home affordable, as it relates to the Inland Empire, it would be priced somewhere in the \$250,000 to \$350,000 range. A lot of builders are already in the \$400,000 range, but the sales pace is not there. Plus, when you get into the \$400,000 price range, you begin to see more and more non-conforming loans, or 'jumbo' loans, which many lenders are reluctant to provide. From the builders' side, it just isn't feasible to build the 3,000- to 4,000-square-foot-house for \$250,000, and that's why you'll see a change in product to smaller square footages and fewer amenities to reach these price points."

"I think the builders are very cautious to start anything

new," states Lou Ochoa, division president for Barratt Homes. "We've actually seen signs of improved traffic for the first couple of weeks of January. What we've also seen is the improved FICO scores of the customers. We were getting people in the 400s and 500s coming in the office, and now we're seeing 600s and 700s.

"That's a good sign, and that leads me to believe that perhaps the buyers are starting to see that it's time to buy because we are either at the bottom or close to it. The demand and the growth of population and the need for housing in the region is there. So, we need to have a healthy housing market to support the rest of the economy in Southern California. We, at Barratt Homes, are very entrenched in making sure we do everything we can to make it a good, healthy housing market, and that means, in part, keeping controls on over-regulation and over-burdening of fees."

Some builders are "mothballing" projects, which means they've decided not to move forward. Their decision

is based on the assessment that to move forward will be more costly, meaning producing or selling houses at a loss or greater loss as homes adjust downward. It's better to hold the entitlement and basically put a halt to anything moving forward.

To take a piece of raw land through the "pipeline" is a major undertaking. For example, take a fairly straight forward, flatland property, such as former farm land, from the time you buy it to the time you can pull a permit, in a healthy market, it's not uncommon to be stuck in the pipeline for 3 to 4 years. To take a project out of the pipeline and redesign it to meet the market demands is almost impossible.

Take a project that has been mothballed. By the time you get back to redesigning that project and putting it back in the pipe-line, the process takes so long that you've missed the market again.

The single biggest hurdle for the new homebuilders are the time and costs associated with the processing – entitlement and fees. "Changing the process of entitlement and fee payment schedules is a huge task and it is long, long overdue," Ochoa adds. "To have the support of the Riverside County Board of Supervisors and the way they've expressed it to us in various meetings, it's a ray of hope."

One of the most outspoken and dauntless proponents of

processing reform is Borre Winckel, executive director of the Riverside chapter of the Building Industry Association. "The record will show that in Riverside we were very early to come up with a list of stimulus measures, knowing that we were disproportionately hit by the market, owing to our volume of planning and volume of construction," says Winckel. "We needed to move very quickly and aggressively in getting it out to local governments, and to make the case that this is not just a builders' downturn, a developers' downturn, or a housing or homebuyers' downturn.

"This was a true economic downturn...we in the Inland Empire certainly were feeling it as such, meaning the market pullback was far greater here than anywhere else," Winckel explains. "So that begged the question, what is it that local government can do that can make any difference? We know that if the builder pays, on average, \$60,000 worth of impact fees alone at the building permit stage, then you're not really impacting anything else for the next 7 or 8 months, as much as you are the construction. Then you might as well make a case to pay those fees closer to the actual point of impact, which is the final inspection of Certificate of Occupancy (COO)."

There are numerous jurisdictions in a fee-levying position, such as school

districts, library districts, parks & recreation districts, counties, cities, etc. The school districts seem to charge the highest fees per house.

For the builder who builds numerous homes in communities or neighborhoods, the cost savings would be tremendous. Rather than financing the processing of the house, and instead of being a cost of the project, the savings could serve to reduce the price of the home.

"I'm concerned as to whether we can hit affordability with these large fees. Certainly that's an issue, and that adds an area of difficulty to reaching affordable levels in the Inland Empire," Swindell says.

"We seem to go through a lot of one-on-one economic talks, whereby we attempt to be persuasive in the argument that cash flow for the builder means cost savings, ergo an opportunity to build a project that otherwise would not be viable. It also turns out that the school district stands a big chance of collecting more fees if they were to engage in a similar deferral action," Winckel continues. "We started the request with the Riverside County Board of Super-visors to be the first ones to defer fees to certificate of occupancy or final inspection. Coincidentally, we now begin the long awaited streamlining process because the Board of

Supervisors and the Planning Commission have both committed to making real reform come true.”

In closing, Ochoa proffers, “It’s going to be a tough year, but it’s going to come back.”