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## National homebuilders in Denver area plan for economic rebound by buying house lots

By Margaret Jackson  
The Denver Post

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Despite softening sales in the new-home market, national homebuilding companies in the Denver area are continuing to buy lots, significantly driving up prices from where they were a year ago.

It's part of their push to have communities to build in when their existing inventory runs out and to position themselves for an economic turnaround.

The push to buy lots comes even as sales of new homes collapsed in May, falling 18.3 percent nationally compared with the same period last year.

"At the end of last year, we had just one active community that we could still sell homes in in 2011," said Matt Janke, director of land acquisition for Meritage Homes' Denver office.

Over the last six months, Meritage Homes has snapped up about 600 lots in 13 communities, and the company isn't stopping — it closed on four land deals last week.

"As long as I can underwrite the deal and the market data supports the deal, we will continue to buy," Janke said. "We have no cap on what we can buy."

Meritage recently bought 72 lots in the Smoky Hill corridor for \$43,000 apiece from an investor who paid \$24,000 each last summer, Janke said.

"It's still a fantastic price, but it shows there's an appreciation in the market," he said.

Scottsdale, Ariz.-based Meritage Homes is the ninth-largest homebuilder in the U.S., based on homes closed. As of March 31, the 25-year-old company had 149 actively selling communities in 12 metropolitan areas.

David Crowe, chief economist for the National Association of Home Builders, said national builders are flush with cash and ready to spend it, but they'll be careful not to buy lots too far in advance of when they actually plan to build homes.

"They made a lot of money in the euphoria of the mid-decade, and they held onto it," Crowe said.

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"They are smart enough to understand that homebuilding is cyclic and good times are often followed by not-so-good times."

Like other companies, national homebuilders were able to take advantage of changes in the tax law that allowed them to refile taxes from previous profitable years.

"That added to cash advantages because they refiled and got refunds," Crow said.

Aaron Smith, senior economist at Moody's Analytics, said Denver's economy is better than that of other cities across the country, so it's not surprising homebuilders are ramping up their inventory.

"House prices have held up very well," Smith said. "You guys have strong demographics, population growth is quite strong and doesn't show signs of slowing, and you're heavy in technology. Technology is one of those sectors that does well in recovery."

## First-time buying market

In the past six months, KB Home Colorado has acquired five new communities and has several more under contract, said Rusty Crandall, president of the company, which builds exclusively for first-time buyers.

"This is a great time for us to increase our market share, but we're doing it within our strategy of buying finished lots and getting into the price point for first-time buyers," he said.

"We're still actively looking, and we are trying to continue to gain market share in Denver.

"We're pretty high on Denver and think it has a great future."

Over the past year, land specialists Jim Capecelatro and Mike Kboundi of Fuller Real Estate have sold 4,400 lender-owned lots for \$59.5 million. The buyers — both builders and investors — have paid cash for the properties, and multiple builders are bidding on them.

"The banks and other sellers today have the ability to sell for a number that makes sense to a builder," Kboundi said. "And the builders have cash in their pockets to be able to spend money on land right now."

Fuller had a total of 13 bids on 305 finished lots at Fallbrook Farms in Thornton. MDC Holdings, which builds under the Richmond American Homes label, won the bidding war, buying the property for \$13 million. It expects to start selling at the community this fall.

"It was a very sought-after property," Capecelatro said. "It's just a very family-friendly community that had the right lot prices and sizes."

Nationwide, Richmond American has taken control of 120 communities over the three quarters ending March 31, including lots in more than 15 communities in Colorado, said Zane DeHerrera, spokesman for the company.

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Richmond American takes a conservative approach to buying land and typically has no more than a two- or three-year supply, he said.

"In today's housing market, the same fundamentals apply," DeHerrera said. "However, a homebuilder has to be even more focused. You have to buy great locations and build exceptional floor plans at the right price. And the cliché 'cash is king' has never been more relevant."

## Investors saw opportunity

For the past few years, while the national homebuilders were sitting on the sidelines, investors had been taking advantage of the opportunity to pick up lots at deeply discounted prices.

Over the past few years, Real Capital Solutions, formerly Colorado & Santa Fe Land Co., has bought about 5,000 lots nationwide, said Marcel Arsenault, chairman and chief executive of the company. But the re-entry of the national builders has forced the company to adapt its strategy to buy in smaller markets where the big companies aren't going.

"The price of lots has been bid up as the national homebuilders have come out of the bunker and realized the whole industry isn't going to implode," Arsenault said. "They have more cash than we do. They've paid prices we, frankly, can't afford to pay. We're finding it more difficult to buy finished lots."

While national builders are snapping up lots,

small local builders are still struggling to get financing to buy lots and build homes.

"The banking issue hasn't gotten any easier," said David Tschetter, chief executive of Colorado Custom Homes. "The big guys are sitting on a fair amount of capital, so it makes it a little easier for them to maneuver in those constraints. But for the smaller and medium-sized guys, it's as difficult as it has been, and it will continue to be difficult."

New Town Builders is among the smaller companies selling off lots to focus on infill locations such as Stapleton and Bradburn, said Gene Myers, president and chief executive of the Denver company.

Last week, Myers sold 94 lots in Lafayette's Coal Creek Village subdivision to BMB Colorado LLC of Scottsdale, Ariz. Earlier this year, BMB sold 47 lots at Coal Creek to Meritage Homes, which started construction Tuesday on its model home, said Luigi Talarico, manager of BMB Colorado.

"They plan to be built out in the next 18 months," Talarico said.

BMB, which recently started a homebuilding company, BMB Builders Inc., will start building in the community by Aug. 1.

Meanwhile, New Town doesn't have a single bank loan and is instead funding construction with private money, Myers said.

"The recovery is showing great preference to

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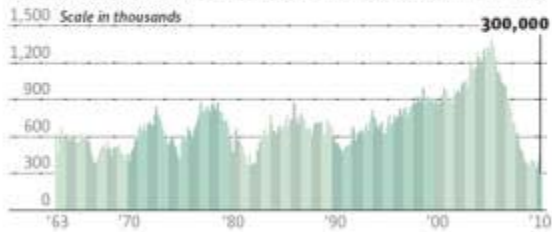
national companies and big guys," Myers said.  
 "But really, the only business that's too big to fail is small business because we employ 80 percent of the employees in this country."

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## New-home sales

New-homes sales fell to a record low in May as potential buyers stopped shopping for homes once they could no longer receive government tax credits.

Sales of new single-family homes at a seasonally adjusted annual rate:



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