

business

## Excess land up for grabs

### Investor interest

By Margaret Jackson  
*The Denver Post*

Article Last Updated: 06/13/2008 10:56:45 PM MDT

Andy Klein is a bargain shopper — on a huge scale.

Since late last year, Klein has bought a few hundred lots for about half of what they sold for just two years ago.

Klein, a partner in Denver-based Westside Investment Partners, is taking advantage of the housing slump that has left homebuilders with an excess inventory of land nationwide. He's buying properties from banks and builders from as far north as Longmont and Brighton to as far south as Colorado Springs.

"Homebuilders don't want to hold inventory of platted lots or finished lots unless they believe they can be built on in the next three years," Klein said. "That leaves a lot of disposable inventory."

Platted lots are those that are carved from larger sections of land to form subdivisions. The infrastructure has not been put in place.

Klein plans to hold the lots for about three years. By then, he expects their value will be about 80 percent

of what it was in 2006.

"I'm OK with that," he said.

It's a phenomenon that's occurring nationwide, according to a RREEF Research report.

Homebuilder Centex, for example, recently sold a portfolio of 8,500 lots in 27 neighborhoods in 11 states to Dallas-based RSF Partners and San Francisco-based Farallon Capital Management, the report said. Centex carried the land on its balance sheet for \$528 million, more than three times the \$161 million sale price. Centex is keeping a 5 percent interest in the joint venture and has a right to receive a greater share of the profits if certain financial targets are met.

Largest builders reduce lots

"A lot was made out of the Centex deal," said Matt Osborn, senior vice president of homebuilding for Village Homes of Englewood. "The one thing we took a little solace in in Denver is that none of those transactions were in Colorado. But that mentality starts to enter into the marketplace when those kind of numbers are out there."

Village Homes has not sold any land. It's looking for opportunities to buy but has not been able to make the numbers work.

"We haven't found anything that makes sense right now," Osborn said. "When you're a builder looking at buying new land, it's tough to justify some of the prices at current absorption rates."

With an excess of 2 million homes above what is considered normal inventory nationwide, it will be another two or three years for half of the major metropolitan areas to stabilize and allow new homebuilding. That has many builders dumping

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land.

The 10 largest public homebuilders reduced the number of lots in their inventory by 39 percent last year, according to the report by RREEF, the real-estate investment arm of Deutsche Bank's asset-management division. The majority of the decreases came from write-offs of land options.

"There was a lot of speculative hoarding by homebuilders in the face of rapidly rising prices," said Robert Denk, an economist at the National Association of Homebuilders. "Now that it's hit its height, it makes sense that a lot is going to get dumped at lower prices. For big investors that have deep pockets and long time frames, this is a good time to be shopping for values."

Denver is among the markets considered a good place to invest because its excess inventory is expected to be absorbed within the next three years, according to the report. Other markets that could be good places to invest include Atlanta; Fort Lauderdale, Fla.; Los Angeles; Minneapolis; and Oakland and Orange County, Calif.

"Good investments"

As of January, Denver showed an 8.2-month supply of homes, lower than the median of 13.6 months for the markets RREEF surveyed. Building permits for single-family homes were down 56 percent, compared with a median of 49 percent in those markets.

"If you can acquire finished lots or platted lots or raw land parcels at discounted prices in Denver, they are going to prove to be good investments as long as you do your homework," said Jim Capecelatro, senior vice president of Fuller Real Estate.

Capecelatro has four deals in the works and another 10 buyers interested in investing in lots.

"It's either people with development experience or people with homebuilding experience that are now acting as investors and have put together investment funds with a specific purpose of buying lots at discounts, holding them until the market turns around and making competitive returns," he said.

Large institutions also have set aside capital for residential land funds. The California State Teachers Retirement System committed \$1.5 billion for residential land, of which \$200 million has been invested. The Los Angeles County Employees Retirement Association has invested \$137 million of the \$300 million it set aside.

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