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Companies work to survive the real estate slump

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In the midst of the housing boom of 2004 and '05, business was brisk at Phoenix-based Landiscor Aerial Information.

Home builders, developers, investors and businesses trying to get ahead of the booming housing market needed maps and photos of hot areas. Then, in late summer 2005, the company's sales started to slow.

Landiscor wasn't alone. Metro Phoenix's housing market had reached an all-time high with houses selling within days and home prices shooting up 50 percent in a year, but it had overheated by October 2005.

Many companies and real-estate buyers and sellers thought that it was a blip and that the Valley's strong population and job growth were enough for housing to boom awhile longer. They weren't.

"I have yet to meet anyone who thinks they predicted a market downturn quick enough," said Landiscor President Nora Hannah, who has been running the company for 14 years. "It takes about six months to realize a slowdown isn't just a blip."

Housing accounts for at least \$1 in every \$3 generated in metro Phoenix. So when home sales and building slow, the economic pain spreads everywhere.

The housing slowdown starts with builders and real-estate brokers. It then creeps up on subcontractors, architects, engineers, mortgage lenders, landscapers, interior designers and, finally, retailers such as furniture and grocery stores.

No one is calling for the Valley's housing market to crash as it did in the late 1980s. The rest of the area's economy, including the commercial real-estate market, is still strong.

But RL Brown, housing analyst and publisher, said Arizona companies need to face reality and try to make money in the current housing climate, because a repeat of 2004 and '05 isn't going to happen.

"Businesses that made a lot of money because of the housing market a few years ago better expect to give some of it back this year," he said

For many Arizona companies linked to the housing market, survival means shifting focus.

Survival stories

In 2005, about 75 percent of Phoenix-based Coe & Van Loo Consultants' business came from residential builders and developers. The civil-engineering, land-planning and surveying firm was turning away commercial and government work because it was so busy.

"The market turned so quickly," said Curt Johnson, the firm's director of planning. "One day, literally, the phones stopped ringing."

He said Coe & Van Loo quickly shifted gears from residential to commercial and government work, calling back many of the clients they had just denied.

"Some firms weren't happy we had turned them away before, and I don't blame them," he said. "But we quickly worked to show them we had the staff and experience to do their work and wanted the work."

Now, about 50 percent of Coe & Van Loo's business is residential, and the firm switched focus fast enough to avoid layoffs.

For landscape architecture firm Norris Design, surviving the housing slowdown wasn't about making drastic changes. It was about planning to ensure a diverse mix of clients.

"What firms need to do is make sure that they've got their fingers, to whatever percentage they want to do it, in a little bit of everything," said Tiffany Halperin, an associate who leads landscape architecture for the Phoenix office.

Parts of the business slowed down because there is less building. But falling property values have clients looking to buy land on the cheap, Halperin said, driving them to the company for design and planning help, which can take a couple of years.

Market conditions

Many hoped for the housing market to rebound in early 2007, or at least by midyear. Now, the forecast is for housing to stop slowing sometime in 2008.

Metro Phoenix home sales and building are off 20 percent to 30 percent from last year - which was down 30 percent from the overheated housing market of 2005, according to Brown. Home prices are down about 5 percent. Foreclosures have climbed 10-fold.

A record 50,000-plus homes are for sale across the Valley, and it's taking an average of 92 days for them to sell.

Many blame the same speculators accused of running up home prices a few years ago for now pushing listings to record highs and pulling down the market as they try to sell. Some speculators who bought multiple properties using adjustable-rate or subprime loans are now trying to sell at a loss, hurting all home prices.

Some investors now can't make payments or rent them for enough to break even. They're

walking away from properties, which is causing foreclosures to jump. Other buyers who stretched to buy bigger houses with adjustable-rate mortgages are getting clobbered by rising interest rates.

"Metro Phoenix's housing market has a tough year or two ahead of it," said Tim Sullivan of San Diego-based Sullivan Group Real Estate Advisors, a national real-estate consulting firm. Still, the key is to not panic, he added.

"Right now, being conservative is the best advice I can give," he said.

Holding on to homes

Many real-estate experts have the same advice for homeowners and investors: Don't sell if you don't have to.

"The slowdown in housing and now the rise in foreclosures are putting pressure on prices," said Mary Gomez, a West Valley real-estate agent with Realty Executives. "If people don't need to sell, they should wait."

Housing analysts say home buyers, owners and investors shouldn't count on a repeat of 2004-05. Based on the 50,000-plus homes for sale across metro Phoenix, it will take 10 to 12 months for housing supply to be on par with demand.

Jay Luber, First Horizon Home Loans of Phoenix vice president, tells homeowners to buy houses they want to live in instead of investing in them for a quick profit.

"Buy a home that you feel comfortable in and can afford now and in a few years," Luber said.

Growth ahead

Economists and analysts study a handful of indicators to gauge the housing market's health: home prices; the number of houses for sale; the length of time it takes a house to sell; recorded sales; investor activity; mortgage rates; foreclosures; and job growth.

The combination of two ingredients, overbuilding and job losses, is what makes housing markets go bust.

"Job growth is good, and real incomes are going up," said Elliott Pollack, Arizona economist and real-estate investor. "There are people who made bets on the exuberant housing market of 2004 and '05 who are getting hurt. But that's not everyone. Metro Phoenix is still drawing jobs and people and has an unemployment rate lower than the national average.

"The area's growth bodes well for its housing market to rebound more quickly than other parts of the country," Pollack said.