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## Homebuilders limit supply

10 percent of region's new-home projects shut down

Sacramento Business Journal - by [Michael Shaw](#) Staff writer

For much of the housing slump that has rocked Sacramento during the past two years, homebuilders failed to heed their own advice about restricting the new-home supply to spur market recovery.

But that changed dramatically late last year, according to new-home analyst **The Gregory Group** of Folsom, which is reporting that builders were forced to shut down 10 percent of the region's new-home projects as sales sank to their lowest levels in years.

Those closures removed about 2,800 potential home sites from the market -- a likely factor in the 31 percent drop in new-housing inventory, defined as anything from a ready-to-build lot to a finished house. That's the first significant drop of its kind since the slump hit Sacramento in fall 2005.

The Gregory Group found that since June companies have halted sales in 34 of the region's roughly 370 new-home communities, with most of those shutdowns in the fourth quarter. Those communities ranged from one project in Plumas Lake to eight Natomas projects; three others in the area are being recast as apartment complexes.

"It's one of the things that's really surprising when you look at the data," founder Greg Paquin said. "Inventory hadn't gone down for two straight years. Now, it is down significantly."

Builders have also been leery of opening new projects. They opened just seven after 25 communities sold out last quarter. Overall, there are about 15 percent fewer projects now than in the fall.

Sales figures show no signs of the slump easing, despite recent inventory reductions. About 1,320 new homes in the six-county area sold during the fourth quarter, a 46 percent decline from last year, the company said.

"We're expecting more of the same," Paquin said of 2008, predicting sales this year likely won't top the 7,407 new homes sold last year in the Sacramento region but that inventory reductions could play into the market recovery beyond that.

Dean Wehrli, a vice president with analyst **The Sullivan Group**, said gloomy fourth-quarter sales were expected as winter is the worst season for moving new homes.

"Buyers have gotten into the mode of waiting until after the Super Bowl," he said. "Is 2008 going to have a spring bounceback? I think 2008 is going to be a marginal year at best. From what I see coming out of Wall Street, it doesn't appear there's much to change that."

Wehrli noted falling prices have made new homes more affordable to a greater number of residents, but tighter lending restrictions will mean even those in the market for a new home might run into trouble



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Local builders have shut down 10 percent of their new-home projects -- or about 2,800 potential house sites -- as sales have shrunk to their lowest levels in years.

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financing it.

"Affordability going up doesn't matter when you can't get a loan," he said.

But the prospect of fewer projects competing for buyers bodes well for companies that can ride out the slump.

"I'm not happy with the overall market, but I'm certainly very happy with Centex's performance in that market," said Doug Pautsch, president of Centex Homes' Sacramento division.

The company sold almost 700 homes in Sacramento last year and built about a 9 percent market share. It's either first or second among homebuilders based on sales volume depending on the data source, vying with KB Home for the top spot.

"Builders that are well-capitalized will have a better year in 2008," he said.

Public companies such as Centex have dominated Sacramento's market throughout the slump, despite posting losses and precipitous stock price declines. Nine of the top 10 builders in Sacramento are now large, publicly traded companies, with JMC Homes the only private firm cracking the list. Pautsch said Centex hasn't halted sales in any of its communities, though the company has held off on opening some new ones.

It's the smaller, private builders that have been forced to shutter operations. Paquin said the closed communities included some owned by developer Reynen & Bardis Communities Inc., which has been accused of missing payments on close to \$20 million in obligations.

According to The Gregory Group, new-home prices were fairly steady during the past quarter, with the average price falling less than 1 percent to \$426,710, and the median price likewise down less than 1 percent to \$387,950. It's not clear whether that's a fluke or prices have hit bottom. Incentives, likewise, were only slightly higher in the past quarter than the one previous.

John Schleimer, whose **Market Perspectives Inc.** analyzes markets in 40 states, said Sacramento is among those hit the hardest by the housing downturn. Falling sales prices for new homes have dragged down prices in the resale market as well, he said.

"Across the country, Sacramento is in the bottom third in terms of the effect," he said. "Sales are off 50 percent from the peak, and prices are down 20 to 25 percent. The places that haven't been hit as hard are markets where there wasn't a run-up."

*mshaw@bizjournals.com / 916-558-7861*

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