

In Slow Times, Homebuilders Look to Cities for Help

One of the country's biggest builders asks Santee to help pay for installing fire hydrants, water and gas hook-ups and more.

By [KELLY BENNETT](#) Voice Staff Writer

Monday, Oct. 15, 2007 | Since Randy Voepel's election as Santee mayor in 2000, he has been unabashed in proclaiming his city's evolution to the "La Jolla of East County."

The city's parking lots would one day fill with Mercedes, BMWs and Lexuses, Voepel has prophesied over the years. Despite heckling from those who consider Santee more synonymous with Mayberry than the coastal neighborhood of San Diego, some pieces of the dream are coming together.

"I was at my favorite restaurant the other day, and what do you know?" he said. "There was a Lexus next to a Beemer next to a Mercedes. People can laugh all they want, but we are becoming a rich and powerful city."

But besides parking lots filled with gleaming imported cars, Voepel's vision has another specific piece -- Santeeans, or at least the vast majority of them, will own their homes. And Voepel wants the community of homeowners to grow. The city has wooed large-scale developments, one 370-home neighborhood called Sky Ranch, another 1,380-home master-planned community called Fanita Ranch.

Help!

- **The Issue:** Strife in the housing industry has some homebuilders reexamining the plans they made -- or even started constructing -- when times were good.
- **What It Means:** Some companies are returning to the cities that approved their plans to now revise their construction schedule or ask for special taxes to allay the costs of completing the projects.
- **The Bigger Picture:** Many of the region's municipalities, fat on the recent development boom, must now revisit some of their dreams.

Sky Ranch, atop the city's Rattlesnake Mountain, is under construction by Lennar Corp., the second-largest homebuilder in the country. The company has taken a major hit from slumps in housing markets nationwide, declaring in September its largest quarterly revenue drop ever and a 35 percent reduction in workforce to date.

Now, the company has asked Santee to allow a special tax to be charged to future homebuyers in the neighborhood. The tax, called a Community Facilities District, would take Lennar off the hook for the millions of dollars in infrastructure -- paving roads, installing fire hydrants, hooking homes up to gas and water pipes -- the company is required to provide in the community. Instead, that cost would be charged to the homeowners in annual bills ranging between about \$2,000 and \$5,000.

As major homebuilders face unprecedented losses nationwide and look to cut costs, the local cities they're building in are feeling some of the effects, too. Housing's new reality looks less like the unfettered enthusiasm for new construction expressed by many cities in the region for several years this decade.

Municipalities, fat on the housing boom, now face smaller rations of the building fees and sales taxes that streamed their way earlier this decade. Instead, as houses sell more slowly and builders stretch out their construction, some cities have to revise their dreams of facelifts financed by a bumper crop of housing. In some cases, builders are coming back to city planners and asking for special considerations, like the tax in Santee.

To Voepel and some of his colleagues on the City Council, the tax request came as a surprise. Lennar's plans have already been approved, ground has been broken and sales have begun for the units.

Voepel said he's never liked the special tax programs, called Mello-Roos Community Facilities Districts.

"It transfers a lot of the risk and the reward from the developer on to the homeowner, and it's a hidden tax," Voepel said.

But not passing the tax could be worse for Santee, and for Voepel's vision, he said. In past downturns, builders have hit hard spots and left developments sitting for three or four years, he said. If that happened to Sky Ranch, it would be a disaster for Santee.

"Candidly, without Mello-Roos, I have questions as to whether Lennar will complete the project," he said.

And if Lennar walks away? "It would be an eyesore up on the hilltop," Voepel said.

And so Voepel and his colleagues on the City Council passed the measure last week that will send the creation of the district to a public hearing in November.

It's unusual to ask for the district so late in the process; Lennar's plans were approved in June 2005. But in June 2005, the market looked different. Now, Lennar's looking for whatever help it can get.

"The developer has to pay for the infrastructure one way or the other," said Peter Dennehy, senior vice president for the Sullivan Group Real Estate Advisors. "It's letting [the builder] finance it and have the homebuyer pay it back. ... In a tight market, they're probably saying, 'We could really use the cash.'"

The 130 single-family detached home communities in the county that have any units for sale contain a total of about 10,400 homes. Of those, about 5,300 are unsold units, Dennehy said. Not all of those have been released, but at an estimated rate of 1.75 sales per month per development, the new homes out there would take close to two years to sell. August's rate was about one-third to one-fifth what it would have looked like a couple of years ago.

"Healthy absorption is one (sale) a week," he said. "Four or five a month. In August, they did one a month. That's bad."

But builders aren't all changing plans. Curt Noland is the general manager for San Elijo Hills in San Marcos, a master-planned community of 3,400 homes. He said it's too soon to tell whether moves similar to Lennar's in Santee will spread countywide.

"The (slow sales) trends that we're seeing in the market today haven't been here very long," he said. "There hasn't been much time to react. It's not a long-term trend, at least so far."

But in cases where builders are going back to cities in the region and asking for a revision in plans, Noland said he's noticed a change on the city's end, especially when the builder or developer asks for the special taxes. In that case, the municipalities are asking tougher questions about the builders' ability to weather the market and supervise the levying of the tax.

"One of the things that we've seen is cities getting more conservative on underwriting criteria," he said. "They're telling us they want to see evidence of sales, rather than forecasting sales."

The skepticism makes it more difficult for master developers like San Elijo Hills to sell lots to individual builders, Noland said.

"The more constraints you put on builders in difficult times, the less likely they are to make it work," he said.

But to the contrary, now that cities like Chula Vista and others in the region face revenue shortfalls due to a slowdown in building fees, those governments are more likely to express a bit of nostalgic thanks for the boom times.

"Many cities have become more appreciative of the contributions of developers, now that they're not

getting that contribution," Noland said.

And Kim Kilkenny, vice president of the Otay Ranch Company, a master developer in Chula Vista, said the kind of taxes Lennar's asking for are "part of the fabric of eastern Chula Vista." The Mello-Roos taxes have been used in much of the new development in that city.

"There are no surprises," he said. "We're definitely having slower sales, but our land plans haven't changed. It just gets more difficult in a downturn."

Please contact [Kelly Bennett](#) directly with your thoughts, ideas, personal stories or tips. Or [send a letter to the editor](#).

Close Window
