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Housing skid leads to exodus of builders

Analysts: Many won't return when it's over

By Emmet Pierce
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May 27, 2008

The housing slump is downsizing San Diego County's home-building industry, as many of the large firms that helped create suburban communities scale back or close local operations.

Companies that sold tens of thousands of homes during the recent housing boom are struggling to stay afloat until the downturn ends. Some of those that leave probably won't return.

"Centex, KB Home, K. Hovnanian, William Lyon, Richmond American, Pulte – all have closed local offices, and pretty much every other builder has reduced staff," said real estate analyst Peter Dennehy. "They don't need the same number of staff as when the market was rockin' and rollin'."

The music began to fade in late 2005, when the housing boom reached its peak. Paul Tryon, chief executive officer of the Building Industry Association of San Diego County, expects fewer than 4,000 home-building permits to be issued in the county this year. If so, production will be at a low not seen here in decades, he said.

Experts say the problem goes deeper than the slowing sales trend. There simply is less for builders to do as the county runs out of land designated for residential development.

In the future, residential construction will consist mainly of urban infill projects and attached housing. That's why many of the departing builders probably won't be back, even when the housing slump ends.

"The industry is experiencing a paradigm shift," Tryon said. "It really means we are seeing a shift to a smaller market with less greenfield (open land) development, an environment where large-scale development is difficult to achieve. That means a different kind of product in many cases."



NELVIN CEPEDA / Union-Tribune

In the future, residential construction will consist mainly of urban infill projects and attached housing such as the Atlas project in Hillcrest. That's why many of the home builders who have downsized their presence in San Diego County probably won't be back even when the housing slump ends.

HOME-BUILDING PERMITS ISSUED IN SAN DIEGO COUNTY

| Type | First quarter | | |
|------------------|---------------|------------|---------------|
| | '07 | '08 | Change |
| Single family | 742 | 387 | -47.8% |
| Townhouse/Plex | 366 | 159 | -56.6% |
| Condominium | 969 | 267 | -72.4% |
| All types | 2,077 | 813 | -60.9% |

SOURCE: Hanley Wood Market Intelligence

MATT PERRY / Union-Tribune

Some builders are having trouble raising money for new projects. Michael D. Pattinson, president of

Carlsbad-based Barratt American, was in England last week looking for new capital for his privately owned company.

"Banks have taken flight and left our industry," Pattinson said. "The economics of housing in San Diego and California no longer work. The houses now that are selling are the foreclosures that have been taken back. We are selling assets to survive and doing what we can to keep our businesses going."

But sometimes, the best thing to do is to close up shop. Tony Pauker, former regional president of the Orange County-based Olson Co., lost his job when the firm closed its office here in January.

"We went from a peak of 55 employees down to 20 and then to zero," Pauker said.

He recalls seeing a decline in traffic at new-home communities during summer 2004. By the end of 2005, some local builders were shedding staff.

"The downsizing started as a trickle and became a flood," Pauker said.

The retreat coincided with the end of the housing boom. Prices for detached homes in the county peaked in the fourth quarter of 2005, while attached-home prices, including condominium conversions, peaked in the first quarter of 2006, said analyst Russ Valone of MarketPointe Realty Advisors.

Given the shortage of land zoned for new-home construction, a shrinking of the building industry probably was inevitable, Valone said.

Statewide, 2008 could be the slowest year for home construction since at least the early 1950s, said John Frith, spokesman for the California Building Industry Association.

Sherman Harmer, president of the county building industry group, worries that remaining builders won't have the ability to respond when the market turns around. When large companies leave the market, they take their capital and their expertise with them.

"Even when we get a more stable market, our capability to produce homes is going to be dramatically affected," Harmer said.

The latest major player to scale back here is D.R. Horton Inc. A giant among the nation's home builders, the company has gone from several hundred workers here at its peak to fewer than 10, said Dennehy, senior vice president of Sullivan Group Real Estate Advisors.

Company representatives declined to discuss the matter. In a prepared statement, they said sales, construction and customer service will continue to be managed locally. D.R. Horton is selling new homes here in six communities.

Aside from finishing projects, most of the large builders that remain "are down to very limited building agendas right now," said real estate economist Gary London.

"Most of what they are doing is entitlement work and operational maintenance," London said. "Some are probably buying properties at a discount."

Steve Doyle, president of Brookfield Homes' San Diego division, said his company has no plans to leave the region. Brookfield, which is heavily into land development, is looking for opportunities as other builders sell their holdings.

Companies that leave probably won't be back, Doyle said.

“They believe there won't be an opportunity to get to the 200-to-300-unit-a-year level, which they need to maintain an office,” he said. Economies of scale “don't kick in until you hit about 300 units.”

That style of development dates to the 1950s, when large tract-home developments began to take buyers to the county's urban fringe, away from employment centers.

In the 1960s, freeways fueled the growth of the suburbs, allowing communities to sprawl farther from metropolitan centers. In the decades ahead, attached urban infill housing will dominate construction as home buyers return to cities, London predicted.

The industry is going through “a sea change” that will require those who remain to do more than create suburban tract homes, he said. Single-family homes will be replaced by vertical, mixed-use projects in existing communities.

Pauker, who builds urban infill homes, said he wants to be part of the trend.

“I don't know who will be doing business in San Diego, but we won't have a dozen publicly held companies,” he said. “It's going to be mostly small, local guys. We won't be building another Eastlake or another Scripps Ranch. We will be building in existing communities.”

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