

US housing slump creating 'ghost towns'

By Catherine Elsworth in the Inland Empire

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Welcome to the new "ghost towns" - brand new, immaculately tended communities with not a tumbleweed in sight.

Financial analysts in California have identified the latest symptom of the devastating housing down-turn plaguing the US - tracts of freshly built, well-appointed homes where no-one apparently wants, or can afford, to live.

Aaron Deer, an analyst with Sandler O'Neill & Partners, toured housing developments in California's Inland Empire, a formerly booming property market 40 miles east of Los Angeles, for a report on the health of the building industry.

On his visit to developments in Ontario and Corona, which he pointed out are "actually healthier markets" compared to areas further inland, he found "a significant number of fully built homes sitting vacant along with a large number of additional homes still under construction".

And, "at one master plan community, the entire development appeared to be vacant. With the exception of crews working on new construction, it was a ghost town. The homes all appeared to be empty and there was no prospective buyers anywhere to be found."

"What I found so amazing was that this is actually a beautiful complex, with lush green lawns and high-end appliances that would suggest a prestige property," Mr Deer said.

"It's impeccably cared for because they are trying to sell the homes. But they were all empty. It was bizarre. There were no cars in the streets, no children's toys anywhere. Literally there was no-one but construction workers. It really did have a ghost town feel."

He noted in his report: "Perhaps the most interesting aspect to the development was what it revealed about the nature of the housing boom: that at the peak even the most undesirable and remote locations were worthy of expensive, high-end homes."

At one development he visited, "the New Model Colony at Edenglen", in Ontario, homes start at just over 200,000 dollars.

The estate is dotted with colourful flags and signs that read "welcome home, we've been expecting you". But despite a map in the sales office dotted with "sold" stickers, there appeared few signs of life other than construction workers and gardeners tending pristine shrubbery in the baking 97 degree heat.

The only sounds were the hum of air conditioning units cooling immaculately-furnished show homes where flat screen televisions played to vacant rooms and piped music emanating eerily from empty balconies.

Mr Deer said similar developments could be seen across the region, marked by flags and balloons and for sale signs. And it was a trend echoed nationwide in places such as Nevada, Arizona and Florida,

"where most of the aggressive development was done in recent years".

"For example, condominium projects in Miami are having a very difficult time selling," he said. "In a lot of cases, developers thought they had pre-sold properties. But the buyers they thought they had are walking away from deposits because since the time they signed those agreements, the properties have come down so much in value it doesn't make sense for them to follow through with their purchase agreements."

Mr Deer said many of the banks with "construction exposure" he represented were steeling themselves for potential losses on developments they had financed.

He said Edenglen was "indicative of the trends that are being seen in this market", but added: "It's not to say that properties haven't been sold, I just didn't see any signs of community or life that would suggest that they have."

Calls to Brookfield Homes, developers of the community, were not returned.

In Corona and Ontario, home prices have dropped by over 30 percent over the past year, according to surveys. And prices in Edenglen have fallen by up to 200,000 dollars since the first phase went on the market in 2007, the Inland Valley Daily Bulletin reported in May. Adiran Foley, Brookfield president, however, told the paper the new pricing was working and they had sold "52 homes in 16 weeks, so we're very happy with the sales rate".

Experts predict the new homes will sell in time but prices are unlikely to increase in such "overbuilt areas" for years. The New Model Colony will eventually comprise 30,000 new properties over the next 20 years.

Sales of new homes fell by 40 percent in the year to May, according to government figures, with purchases reaching a rate not seen since 1991.

Confidence among American home developers has also equalled a record low, the National Association of Home Builders/Wells Fargo said last month. The number of construction jobs has fallen by 528,000 since its peak in September 2006.

Property developers are meanwhile resorting to incentive schemes to shift existing inventory such as giving away free flat-screen televisions or even a two-houses-for-the-price-of-one offer from a company in California.

Falling home values, rising mortgage rates as well as stricter borrowing rules and a sweeping credit crunch have all contributed to the drop-off in sales, factors expected to prevent many potential buyers from entering the market this year.

"I don't think we have ever seen anything of the magnitude we have had this time," Mr Deer said. "I don't like the expression the perfect storm but there's been a confluence of factors that played into this housing cycle."

Peter Dennehy, a specialist with Sullivan Group Real Estate Advisors who advised Mr Deer about "distressed" areas before he carried out his report, said recent construction booms had partly been "fuelled by cheap money and relatively inexpensive gas prices, and that dynamic has really changed."

Home-buyers would now be far more cautious about buying a home that would mean a lengthy, increasingly expensive commute.

"It's really tough (for builders)", he said. "Home prices have come down pretty dramatically and

people are wary."

In Southern California, there were around 2,000 active housing projects still under construction, he said, although no new ones had started in the past year. The Inland Empire had the most - 686 developments still underway at the end of March.

He added California along with "sunbelt states" such as Nevada, Arizona and Florida - "everywhere where the market was really hot" - were "where the downturn is the worst".

Story from Telegraph News:

<http://www.telegraph.co.uk/news/worldnews/northamerica/usa/2248674/US-housing-slump-creating-%27ghost-towns%27.html>

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