

## U.S. Land Gets More Expensive

By ROBBIE WHELAN

A year ago, Nate Nathan, an Arizona land broker, struggled in vain to sell several hundred home sites in Vistancia, a new-home community about 15 miles from downtown Phoenix. He listed the lots for \$54,000 apiece, but no buyers would offer more than \$45,000.

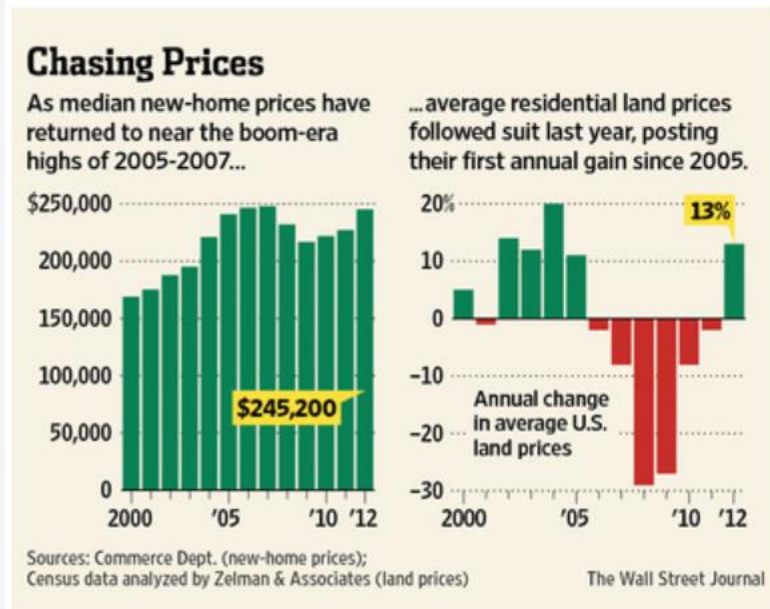
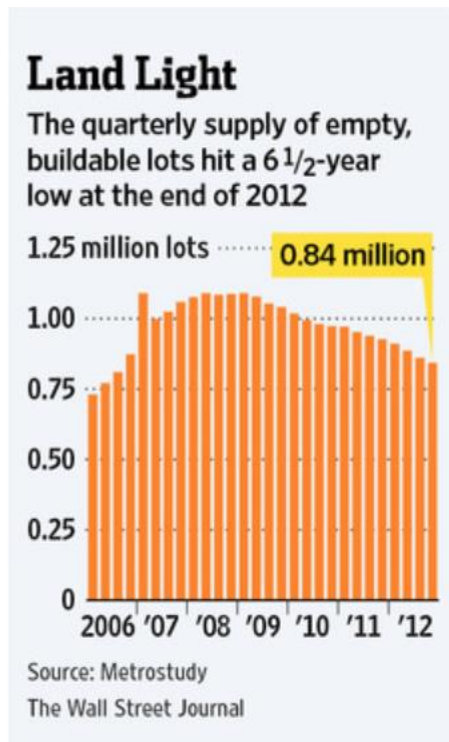
All that changed over the past year. As Phoenix home prices picked up, builders suddenly started coming to Mr. Nathan and making ever-higher offers. This year, he has sold 850 lots, including 250 lots for \$96,000 apiece in the past 45 days.

"The world has just woken up and said, 'We need land!' "Mr. Nathan said.

What is happening in Phoenix is happening in real-estate markets all over the U.S. The rebounding housing market has sparked a sharp rise in land prices, creating big profits for land investors but putting pressure on builders to further increase the price of new homes.

Land values across the U.S. rose on average 13% in 2012, the first annual gain since 2005, according to estimates in a March report by Zelman & Associates, a housing consultancy. The increase was fueled primarily by growing demand among builders for finished lots, or ready-to-build home sites with roads, sewage lines, electrical-power hookups and other infrastructure in place.

"There's no question the land market has gotten heated of late," said Richard Dugas, chief executive of PulteGroup Inc., PHM - 1.44% the nation's second-largest home builder by volume, on the company's most-recent earnings conference call. "In some markets it's a real challenge to get land deals to pencil."



For consumers, costlier land means more-expensive houses. Land cost constitutes 21.7% of the final sale price of a new home, according to the National Association of Home Builders. As land prices rise, builders tend to pass 100% of those costs on to consumers.

Buck Horne, a housing analyst with Raymond James & Associates, predicts that new-home prices will rise 10% to 15% in 2013, chiefly because of rising demand and because of the scarcity of land. "Buyers who can't afford to pay up now are going to have to wait. Maybe they'll have to rent for a while," Mr. Horne said. "They may miss out on the first stage of price appreciation."

This is a significant shift from the economic downturn, when builders halted development and liquidated land for pennies on the dollar. From 2006 through 2011, residential land lost a cumulative 58% of its value, Zelman says.

To be sure, land prices nationally are still far from the peak levels reached in 2005 and 2006. They also are notoriously volatile. In 2009, for example, as the first-time home buyer tax credit stimulated demand for lower-priced new homes, land prices rose, but leveled off and fell slightly when the tax credit expired and demand cooled.

This time, the new-home market appears to be gaining traction. The Census Bureau reported that in February, builders were on pace to sell 411,000 homes this year, an annual increase of 12.3%, while the rate of new-home construction rose 27.7% in the past year. Finished-lot prices rose about 18% in the past year in Raleigh, N.C., a market that has seen several national builders open up shop recently, research firm Metrostudy reports.

In Houston, finished lots in "A" locations—in good school districts with easy commuter access to job centers—are selling for \$1,000 per foot of frontage, according to Metrostudy. At the peak of the housing boom, Houston lots sold for \$800 per front foot, said Brad Hunter, Metrostudy's chief economist.

That is great news for private-equity firms and other land investors, including Paulson & Co., Angelo, Gordon & Co. and Starwood Capital Group, that crowded into the land market at its 2009 trough.

"This is exactly what we predicted would happen," said Tom Shapiro, president of GTIS Partners, a New York-based private-equity firm that 3½ years ago started buying lots in suburban new-home communities at an average of about 20% of peak pricing. "The rate of recovery in some of these markets has just been incredible," he said.

Since 2010, GTIS has amassed a portfolio of about 30,000 home sites and has started selling out of its land positions for large profits. In the past three months, the firm says it has almost sold out 400 lots in Carillon South Lake, a development near Dallas, where it bought land in 2010. "We doubled our equity," said Rob Vahradian, a senior managing director with GTIS.

Meanwhile, with the inventory of finished lots dwindling, investors are beginning to bid up raw land, as well. A recent survey by Zelman showed that demand for raw land has grown in each of the past five fiscal quarters.

Justin Good, a land broker with the Raleigh office of Cassidy Turley, points to a parcel of raw land in North Raleigh that sold in April 2012 for \$235,000 per acre. Now, builders are making offers more than 35% higher than that price on an adjacent piece of raw land. "That's staggering," Mr. Good said.