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New-home builders fighting to survive

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The recent demise of Rottlund Homes, one of Minnesota's most venerable builders, is painful evidence of how the area's home construction industry is on the brink.

With sales at record lows, material costs on the rise and growing competition from foreclosures, builders are adapting in all sorts of new ways to avoid the same fate as Rottlund.

"Home building is pretty much dead in the water," said Wells Fargo & Co. economist Mark Vitner in a recent interview.

Price declines for new houses are now worse than those of existing homes, with the price per square foot for new houses at its lowest level in a decade. Over the past three years, the average sale price per square foot of new houses in the Twin Cities dropped 10 percent compared with an 8.9 percent decline for existing ones.

Such realities are forcing builders to get creative. Some are drastically cutting prices to compete with distressed sales and be more strategic about where they build homes. One local builder is offering a program that would trade an existing home for a new one.

"We're trying to be competitive with everything out there," said Jason Semler, the sales manager for Semler Homes.

Semler said his company is building homes for much less profit than it did five years ago because it is competing with slightly used houses that often sell for tens of thousands of dollars less and are similar in size and appearance. It's also not uncommon for these homes to be within the same development.

Semler, for example, is building in the Lakes of Blaine, a huge master-planned community that's been around long enough for there to be many resales.

He is trying to market a new 2,330-square-foot house in Blaine for \$329,900. In the same area there's a similarly sized house built in 2003, but priced at \$299,900 after selling for nearly \$370,000 in 2004. In a nearby development there's a 2004 house

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with almost 2,800 square feet. It's a short sale and is about \$135,000 less expensive.

Semler Homes is one of several builders working in Blaine, which leads the Twin Cities metro area in construction and is one of the most competitive suburbs for building.

Financing capital is key

Tom Budzynski of TJB Homes in Blaine said his sales are picking up, but that's in large part because he's developed a "guaranteed trade program" that allows buyers to essentially trade their existing home for a new one. It's a concept TJB is trying because many owners are unable to sell because they owe more on their homes than what they are worth.

The strategy helped him achieve record sales by selling eight houses since the middle of September. He expects sales to double next year.

"The market has changed and we have adapted," he said.

Jeff Schoenwetter is being much more careful about where he builds. The owner of JMS Custom Homes in Edina said he has created a niche for himself by buying

existing homes one at a time in high-demand neighborhoods in Edina and the western suburbs and replacing them with upscale houses.

Experts say such strategies are prudent in this difficult economic environment. Builders who are most likely to survive are the ones with the financing to take advantage of cheap land prices and focus on areas where supplies are the tightest.

Schoenwetter is choosing to be more conservative and is not investing in land deals for major housing developments. But national builders like Pulte Homes, which have the capital to pursue bigger projects, have been acquiring land for future developments while prices remain low.

"Whoever has the capital to finance operations is who's going to survive in this environment," said Marv McDaris, Pulte's Minnesota division president.

In some cases, land is selling for half of what it sold for five years ago because many builders over-invested in land and had to give it back to the bank because they were unable to make the payments.

McDaris said he is focusing on undeveloped

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parcels that are large enough to essentially create his own market to avoid competing with existing homes. However, it may be several years before Pulte builds on the land because of slower sales.

In for a long wait

Until home demand picks up, home builders will try to hang on, but recent data suggest builders may be in for a long wait. The number of permits pulled for new homes in the 13-county metro area as of the end of October was 2,450, a far cry from October 2007 when 4,232 permits were pulled, according to the Builders Association of the Twin Cities.

And Rottlund, which will cease operations in December after 38 years in business, is only the latest casualty of the housing shakeout. Membership in the Builders Association has fallen almost half from its peak of 1,900 in 2006.

Wells Fargo's Vitner said he's not worried about the big national builders. Most of them have lined up financing at least until 2015 and will weather the storm. But the situation isn't as promising for many smaller, local companies.

Rich Riemersma, president of the Builders Association and co-owner of Shoreview-based Imperial Homes, said while he thinks the market has already hit bottom, he's not convinced that there won't be another Rottlund.

"It's going to be a slow crawl out," he said. "And if you're not positioned right, there will still be some that won't make it."

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