



Outlook

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Last Builder Left Standing: The Current State of Residential Development

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Most major economic reports today seem to show that the weak economy has reached near record lows. On the housing front, new construction has become virtually non-existent, succumbing to the dual pressures of a two-year inventory of homes for sale and numerous foreclosures. In the second quarter of 2009, builders broke ground on 848 single-family homes in Orlando's four county metropolitan area. According to Metrostudy, a real estate research company and a leading provider of primary and secondary housing market information, this represents less than half the 1,765 starts recorded for the same time period last year. However, the worst may be in the past. Buyers have been busy, shrinking an unsold backlog of 7,000 new homes to 4,500 homes. Home price declines of more than 20 percent nationwide have narrowed the divide between prices and consumers' incomes, creating a bridge to affordability for more Americans.

This analysis takes a look at the current state of Central Florida's residential market. In a macroeconomic context, builders are facing a over supply caused

by foreclosures. On the demand side, consumer confidence, mortgage availability and the inability to sell existing homes are major concerns. Bankruptcy is just one in a string of recent moves by residential real estate companies to downsize their businesses to keep pace with the slow market. Several companies have consolidated to cut costs. Whether the firms reorganizing in bankruptcy will emerge remains to be seen.

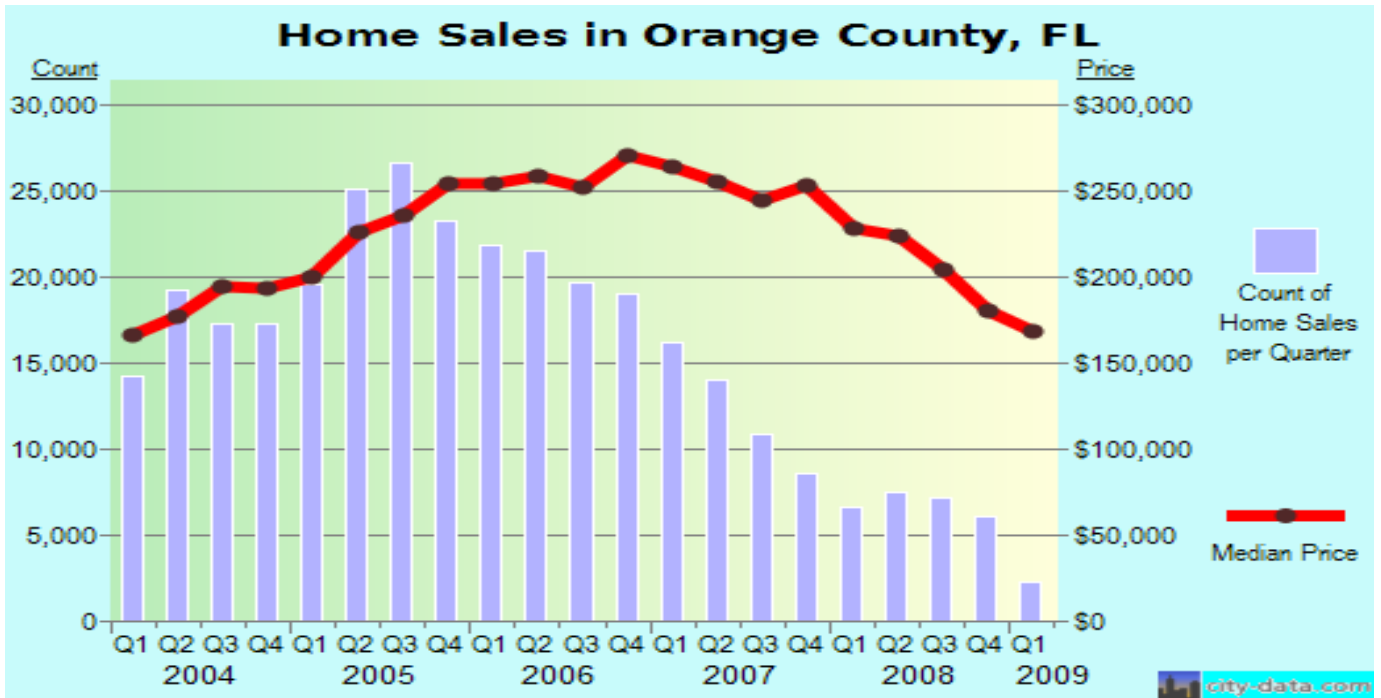
The central question of this analysis is when the demand for new construction returns which builders in Orange County will be "left standing".

According to real estate analysis released last month by MetroStudy there are 42,202 sites ready for construction. With the current pace of sales, Metro Orlando has enough developed-but-vacant home lots to accommodate demand for the next ten years.

The Metrostudy report noted that inventories in the resale market are also declining, thanks to rising existing-home



Figure 1: Home Sales in Orange County



Source: http://www.city-data.com/county/Orange_County-FL

sales. Most of the activity is focused on short sales and foreclosures, putting downward pressure on prices (Figure 1).

The overall single-family inventory was 4,544 in June 2009, a 36.3 percent decline since June 2008. The inventory level represents an 8.4-month supply. The finished vacant inventory fell in the second quarter, from 3,683 units in 2008 to 2,739 units this year. The under-construction inventory dropped from 2,821 units in second-quarter 2008 to 1,385 in the same period this year.

Despite a lethargic residential real estate market, some builders still have managed to gain traction. The top 10 communities in

the Metro Orlando area with the highest number of new home starts were as follows:

Table 1: Top 10 New Home Starts

Development	Developer	Metro Area	Count
Berkshire Park	Pulte Homes	Windermere	138
Avalon Park	Avalon Park Group	Orange County	111
Southern Fields	KB Homes	Clermont	97
Arbor Ridge	KB Homes	Apopka	83
Wyndham Lakes Estates	Renar Homes	Orange County	80
Village Walk at Lake Nona	Pulte Homes	Orange County	74
Baldwin Park	Baldwin Park	Orlando	64
Terracina at Lake Forest	Taylor Morrison	Seminole County	61
Compass Bay	Saks Realty Group	Osceola County	58
Loch Leven	Wescar	Mount Dora	58

Source: MetroStudy, Orlando Business Journal

Many builders have devised strategies to stay solvent in a slow market. In order to compete with the depreciated prices of foreclosures and distressed properties, home builders are relying on a variety of unique approaches to stimulate local sales. Savvy home builders now wait for a sales contract before starting construction, rather than building “spec” homes. This allows the buyer to select, design and personalize their new home. Others have focused on incentives, such as paying closing costs, adding on options, and covering the first year of homeowner association dues. Some custom homebuilders have had success building smaller homes with high end finishes at a lower cost. Value is what is paramount. Promoting an energy efficient homes program produced positive results for Ashton Woods Homes. Buyers are attracted to energy efficient elements that can eventually translate into a 15-25 percent decrease in monthly energy costs.

Pulte Homes has become an advocate of the \$8000 first-time home buyer tax credit that was included in the stimulus package and educates their customers on its merits. They are also introducing smaller, more affordable homes, such as, a 1,200-square-foot home where 1,500 square feet might have sold several years ago. That size difference can have a significant purchasing-price implication. It is important to note that Pulte Homes built Berkshire Park, the number one

Table 2: Top 10 Builders in Metro Orlando

Orlando, Fla.		Total Permits	10,284
Rank	Parent Company/Company	Closings	Market Share
1	Pulte Homes/Del Webb	809	7.9%
2	KB Home	606	5.9%
3	TOUSA/Engle Homes/Transeastern Homes	424	4.1%
4	Taylor Wimpey/Taylor Morrison/Morrison Homes	403	3.9%
5	Centex Homes/Fox & Jacob Homes	388	3.8%
6	The Ryland Group	384	3.7%
7	Lennar Corp.	357	3.5%
8	D.R. Horton	350	3.4%
9	Maronda Homes	327	3.2%
10	Park Square Enterprises/Park Square Homes	234	2.3%
Top 10 Total Market Share		4,282	41.6%

Source : Charles Wayne Consulting, Builder Magazine

development for new home starts (Table 1) and that Pulte Homes is the top developer in the Metro Orlando Area (Table 2).

Still, the market has a long way to go for complete recovery. The number of residential construction permits in Central Florida are down 84.8 percent over the last five years, from 26,037 in 2004 down to 3,961 in 2008 (Division of Building Safety, U.S Census 2009).

Metro Orlando builders still need to work their way through 600 new home communities in the market, says a report by Charles Wayne Consulting, Inc. Residential real estate research by Maitland-based

Table 3: Most New Homes for Sale

Submarket	Active Projects
Northeast Polk County	110
Kissimmee/ St. Cloud	107
Dr. Phillips/ Windermere	52
South Orange County	47
East Orange County/ UCF	44
Casselberry/ Winter Springs/ Oviedo	37
Clermont/ Groveland/ Mascotte	33
North Orlando/ Winter Park/ Maitland	30

Source : Charles Wayne Consulting, Orlando Business Journal

Charles Wayne Consulting includes Central Florida's single family and multifamily developments with 15 or more units. Central Florida has 628 communities with new homes for sale, which includes 376 single-family and 252 multifamily projects (Table 3).

According to U.S. Census Bureau data, in July housing starts inched up 8,000 in the single-family market and dropped 14,000 in the multifamily market, both changes are consistent with the trends expected for the rest of the year.

The housing market recovery is still fragile. Florida builders will continue to have a difficult time and not see the market improve, as California builders have without a similar intervention. California's market had been dead, but now is showing signs of life, due to the state's \$10,000 new-home buyer tax credit. It can also be used in conjunction with the \$8,000 first time home buyer tax credit.

The home builders, such as Pulte and KB Homes, that can lower the cost of the actual home construction to compete more effectively with foreclosures, take the lead in energy efficiency and best market available state and federal tax credits are the builders we can expect to still be standing when the storm clears.

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