

Custom builders get accustomed to tougher times

By PATRICK FORD

Back in the heady days of the 1980s, affluent transplants from the Bay Area and Southern California were snapping up custom homes in such local spots as El Dorado Hills and south Placer County. Locals, too, were selling their homes in Carmichael and Rancho Cordova subdivisions and moving up to spacious foothill digs.

Those days are gone, however, and most builders don't expect their return any time soon.

Today, sales of custom homes are down about 50 percent as compared to late 1989/early 1990. That was the last good stretch for custom-home sales, said John Schleimer, an industry analyst and owner of Market Perspectives, a Sacramento firm.

The share of custom-home sales has shrunk in a shrinking overall market. Custom-home sales now account for about 11 percent or less of sales in general, said industry analyst Townley Larzelere, president of Whitney Research Group in Fair Oaks. During the hot years of 1987 to 1990, that market chunk may have been as much as 15 percent. Over the past decade, he said, custom-home sales have represented about 11 percent to 13 percent of the market.

"The recession and a lack of immigration of families from San Francisco and Los Angeles has significantly impacted the sales of custom lots and homes," Schleimer said.

As a result, Schleimer said, fewer contractors are building custom homes, and those that are still active are running tighter margins. Contractors have also taken new approaches to building and marketing their houses.

For one thing, building on speculation — once a mainstay of the custom-home industry — has largely gone the way of the dinosaur. Schleimer estimates that only 10 percent of present custom-home building is done on "spec." The reason for this is simple: Local banks — themselves squeezed by recession and by restrictions on lending imposed by federal regulators — won't make such loans.

Contractors faced hard times when the market for custom homes dried up in 1990. Builders who had built up inventories of spec homes found themselves making monthly payments on homes they couldn't sell. That glut of unsold custom homes

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lasted until mid-1991, Larzelere said. During that time, he said, a "significant" number of builders went out of business. Of the survivors, many were forced to sell their houses at cost, and a few even resorted to using the unsold houses as their primary residences, Larzelere said.

A thaw and a slow stream

Since those dark days, a slow but fairly steady stream of custom homes has been selling. Orangevale-based Holt Development Co., for instance, sold three homes in 1992 for a total volume of \$1.1 million. Nearly all of Holt's customers in recent

The drawback for contractors, though, is that working with steel involves an entirely different technology. Still, Holt said, when he considers that his last house cost \$80,000 to frame, learning to do a little welding doesn't sound so bad.

Fee on fees

Custom-home prices also often include custom-sized permitting fees. A building permit being processed for one of Holt's houses in south Placer County includes a \$10,000 school district impact fee. With a \$2-per-square-foot surcharge tacked on to larger homes, the total impact fee for a custom home in the area could approach \$20,000, Holt said.

Even the fee for something as mundane as a water hookup in water-starved California has gushed as high as Old Faithful. A water hookup permit in El Dorado County that cost \$500 a few years ago now costs \$5,000, said Geary Parrott, owner of William G. Parrott & Co. of Fair Oaks.

That level of increase is indeed within the general range in the recent history of the El Dorado Irrigation District, said a spokeswoman.

"California is fee-oriented. We have to pay to live here, but it does hurt," Parrott said, noting that other states have cut their building fees.

Alberta Spence, a broker with Maita-Spence Inc., said that Sacramento in particular "needs to get a little more business-friendly. Every other state is courting business and we're slapping their hands." Waiving business fees, she explained, would help attract the out-of-town business executives who once bought up a good portion of local custom homes.

Digging for sales, working the circuit

Spence's firm, which deals almost exclusively with new home sales, struggled in the past year to sell two homes in the \$700,000 range. She described her sales

years have been locals trading up from their "cookie cutter" subdivision homes, said owner Bryan Holt.

Holt's homes generally cost from \$350,000 to \$700,000 and range in size from 4,000 to 7,000 square feet. They typically include marble floors, elaborate wood trim, top-quality appliances and windows, installed stereo systems throughout, designated TV/media rooms and high-efficiency heating and air conditioning.

Garen McCune, president of GLM Custom Homes Inc. in Granite Bay, has been building custom homes since 1978. In 1992, his firm built one home, a \$500,000

What a difference 730 days makes

When asked if Elliott would have made the same offer a couple of years ago, Dekker replied, "Hell, no. Reselling homes is not our business." He recalled that it wasn't so long ago that Elliott held lotteries because there were so many buyers. Now, he said, the company loses money on the resales.

Several industry sources said that most custom homes are presently being sold to locals trading up to more lavish homes. Spence, in her efforts to find buyers for the two \$700,000 houses, limited her nonlocal marketing to one San Francisco TV campaign. It drew no response.

One reason families from Southern California have stopped moving north is that the housing market around Los Angeles is stagnant, Spence said, and homeowners can't find buyers there. But Spence is somewhat hopeful that low interest rates will revive the sales of entry-level homes, starting a "trickle-up" trend.

But it's still slow going for contractors. McCune expects to be out of the custom-home business altogether in a year or two. He and a partner are planning to focus on entry-level homes, believing that's where the opportunities are.

Parrott wistfully recalled that his family-run business was building 40 houses a year on speculation in the 1970s. In those days, custom homes started at \$75,000. By 1990, he was putting up only six spec homes in a year, for prices ranging from \$300,000 to \$600,000. In today's market, Parrott and other contractors are staying busy between contracts by taking on remodeling work.

Still, Parrott remains optimistic. "We haven't given up on Sacramento. Our phone is ringing 300 percent more than three months ago."

house in Granite Bay. Although he currently has contracts for three more homes — two of which are on large, 2½- to 3½-acre lots — McCune is pessimistic. "I see custom-home builders as a dying breed."

Competition from production homebuilders with deep pockets is squeezing the smaller, local contractors out of the market, McCune said. In the past, "all builders were local. But Sacramento is a growing place and developers from all over came," he said. "Banking is one of the things killing the industry. When big guys like Hofmann need money, they call the home office. But smaller builders can't get construction loans."

Double that price tag

McCune sees the day soon when the only true custom homes will cost \$1 million. Rising land, construction and permitting costs all contribute to increasing home costs. "In 1978, when I started building, a lot in Granite Bay that now costs \$150,000 sold for \$11,000," McCune said.

In El Dorado Hills, ½-acre custom lots sell for \$60,000 to \$105,000, said Larzelere of Whitney Research. That is less, however, than the \$90,000 to \$135,000 those same lots would have sold for in the late 1980s, he said. Larzelere estimated that in those days, close to 70 percent of ½-acre custom lots were sold to spec builders.

Lumber costs are rising so dramatically that some homebuilders are turning to less expensive steel-frame construction, Holt said. Although presently only used in a small fraction of new homes, steel framing doesn't rot or twist as it ages. And it saves construction time by coming pre-punched for wiring.

efforts as "very intense," and said she made up new advertisements every day for television, magazines and newspapers. "I did everything I could think of. The only thing that sold them was so much exposure."

Parrott echoed Spence's assessment of the market: "Trying to remain visible is the key," he said. Custom-home builders "need to work a bit harder and go out and meet the public. In the past, the public came to us, but now the market has changed."

Parrott makes his presence known by working home shows and keeping in close contact with the architects from whom he gets referrals. Others, such as Holt, have had their homes included on Building Industry Association tours. Both contractors say repeat business and referrals from past customers are important.

As McCune of GLM Custom Homes observed, big homebuilders can afford to take a different approach to marketing their top-of-the-line homes. Last year, for instance, Elliott Homes Inc. sold 25 houses on 1-acre lots in its Silver Springs subdivision off Calvine Road. One reason the \$350,000 homes sold so well is that the builder has a program that makes it easier for a homeowner to trade up to an Elliott home, said John Dekker, the company's vice president of sales and marketing. Under the terms of the program, Elliott agrees to buy the seller's home at market price, less a 6 percent fee. Elliott does the cleanup and minor repairs prior to reselling, thus freeing the seller from the hassle of finding a buyer and the fixing up the home.