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Homebuilders Could Look to Unload Land for Tax Advantages

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Local distressed real estate buyers and land brokers are expecting a busy next few months as cash-strapped homebuilders and developers look at putting undeveloped lots up for sale to gain a tax benefit, according to real estate brokers and potential buyers.

“Every builder is saying they aren’t, but they are all at least looking into” more land sales, said Tom Reimers, executive vice president of Irvine-based land brokerage O’Donnell/Atkins Co.

Deals are starting to be struck. Irvine-based land development and investment company Foremost Communities Inc. and partner Starwood Capital Group Global LLC of Greenwich, Conn., were reported to have bought about 250 Southland home lots from Fort Worth, Texas-based D.R. Horton Inc. in September.

It would be the first big acquisition announced for the partnership between Starwood and Foremost, led by building executive Steve Cameron. The two companies last year announced a \$250 million fund to buy distressed land in Southern California.

Among other area land buyers, Corona del Mar-based Meyers Land Development, Irvine-based Shopoff Group and Irvine’s Pacific Terra Holdings LLC are expected to be closing deals before year’s end, industry watchers said.

Most of the upcoming sales are being driven by tax implications.

Tax law allows builders to gain a refund by applying losses from land and asset sales to past profits from as far as two years ago. Since 2006 was the last year most builders were profitable, the opportunity to get a big tax rebate ends at the conclusion of a builder’s 2008 fiscal year.

D.R. Horton’s fiscal year ended on Sept. 30, prompting the most recent sales—said to total about a dozen deals.

Next up against the clock is New Jersey-based K. Hovnanian Cos., which has an Oct. 31 fiscal year end. Miami-based Lennar Corp. and Los Angeles-based KB Home have fiscal years through Nov. 30.

“You’re going to see more of these tax-implication deals,” said Barry Gross, president of Irvine-based consulting firm Developers Research LLC.

Lennar last year made a major tax-driven sale when it offloaded some 11,000 home lots, at about 40% of their book value, to a venture led by the real estate arm of Morgan Stanley.

That deal was viewed at the time as a benchmark for the industry, although the volume of similar lot sales hasn’t been as heavy as many predicted largely because builders have been loathe to sell assets at steep discounts.

The standoff could be ending. During the past month or so, the gap in what builders are asking for their lots and what potential buyers are willing to pay has been narrowing, said Jeff Meyers, principal of Meyers Land Development and founder of Corona del Mar consultation firm Meyers Builder Advisors.

In Riverside County, "I've been getting outbid on deals. That's probably a good sign," said William Shopoff, chief executive of Shopoff Group, which just started up a real estate investment trust to buy land.

Most builders and their lenders consider the county to be a "first recovery market," Reimers said. Builders will retrench elsewhere and "want to reload in their primary markets," including OC, he said.

Builders' "Orange County positions are precious," said Paul Grover, managing director of Irvine-based Strategic Land Advisors, a real estate consulting company. "They're not going to want to sell into this kind of weakness" unless their financial position is dire.

Smaller builders that are in survival mode might start looking to sell some of their local properties, Gross said.

"Strategic plans could be less important than raising cash" to stay in business, he said.

If deals are made, infill development properties in the central and northern part of the county that were bought toward the end of the housing boom likely are to be first in line to be sold.

Properties around Anaheim's Platinum Triangle in particular are a possible source of sales, industry watchers said.

"There's going to be some good opportunities around the corner. It's just a matter of when (builders and their bank partners) want to start participating," said Reimers.