

Lennar Sells 19,000 Sites, Others May Follow Suit

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Lennar Corp.'s decision a week ago to sell 11,000 lots for homes in eight states could prompt other big homebuilders to make similar land sales, including sizable deals in Orange County, local market watchers say.

Miami-based Lennar said it was selling the sites to a venture led by the real estate arm of Morgan Stanley. The deal includes raw land as well as partly and fully developed homes for \$525 million.

Lennar is keeping a 20% stake in the venture and will continue to manage the projects.

The country's second largest builder valued the sites at about \$1.3 billion in the third quarter.

Officials for Lennar—whose operations are largely run out of its Aliso Viejo office—said some of the sites being sold were local. But they don't include any of Lennar's more prominent developments in Irvine, Anaheim or Tustin.

The fact that the deal is with Morgan Stanley and spread across so many states are the most striking aspects of the sale, said Norm Scheel, principal of the Hoffman Co., an Irvine-based land brokerage.

"Most opportunities tend to be localized," Scheel said.

In addition to the Morgan Stanley deal, Lennar reportedly sold an additional 8,300 homes in Florida last week to Tampa-based Metro Development Group.

The company's recent transactions could be a benchmark for what other builders could price their excess land at, as well as a catalyst to sell, said Steve Cameron, president of Newport Beach-based Foremost Communities Inc.

"There's been a logjam in the past year to year and a half," because builders were unwilling to part with land at reasonable prices, said Cameron, a former executive with Newport Beach-based builder Fieldstone Communities Inc.

He expects to see national homebuilders offload more OC development sites at 50% to 70% of their book values.

"Builders are adjusting expectations," Cameron said.

Foremost Communities is eyeing discounted land sites in the area, through a partnership with Starwood Capital Group Global LLC of Greenwich, Conn. The venture plans to buy more than \$250 million worth of land in Southern California in the next few years.

Big, private land owners such as The Irvine Company and Rancho Mission Viejo Co. are under no pressure to sell land on the cheap.

But the companies that are doing the actual building could be looking to offload sites, to keep their holdings of lots at a minimum, according to Tom Reimers, executive vice president of Irvine-based land brokerage O'Donnell/Atkins.

"We expect homebuilders to become almost like widget makers, with just-in-time deliveries of lots," said Reimers.

Irvine-based Standard Pacific Corp. is in the midst of cutting the number of lots it owns by about a quarter this year. The ideal amount of land for the company to keep on the books is about a three- or four-year supply, according to Chief Financial Officer Andrew Parnes.

Standard Pacific sold 4,400 lots in the third quarter for about \$190 million. The country's 11th largest builder by sales plans to sell another \$50 million of lots by the end of the year, according to Parnes.

Investor Moves

Land prices on California's coast have held up the best of all of the company's holdings, and in some cases have sold at a slight premium, he said.

Buyers are an equal mix of public and private homebuilders, as well as financial investors and hedge funds.

"A lot of people have been circling the sector, looking for good opportunities," Parnes said last week at the Banc of America Securities Credit Conference.

A number of real estate investors, including Wall Street-backed firms as well as more localized investors, have been building their war chests for when land prices bottom out. The next year in particular could see those investors move for properties in OC, Hoffman's Scheel said.

Standard Pacific plans more sales next year, though how much will be determined by market conditions.

"It's in our interest to convert some of that land to cash," Parnes said

The company expects to generate a minimum of \$50 million in tax refunds from the sales.

Tax implications are also a prime reason for Lennar's sale to Morgan Stanley, said Barry Gross, president of Irvine-based Developers Research, a land consulting firm.

Gross estimates that Lennar will see a tax benefit of more than \$250 million from the deal. He expects a number of other big builders to make similar sales before the end of the year, in order to maximize tax benefits.

Builders "are in survival mode. They're most interested in cash generation," Gross said.