Bay Area home builders struggle to keep up with demand

By Pete Carey
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Confronted with a shortage of land to build on in the Bay Area, housing developers are getting caught up in the same kinds of bidding wars that have frustrated home buyers.

"As the good pieces come onto market, multiple builders are bidding on them and the prices are going to just astronomical numbers," said Stephen Smiley, a vice president of Meyers Research, a consultant to the home building industry.

Land costs have gone up at least 40-50 percent in the past two or three years, Smiley said, ranging now from $3 to $4 million an acre in San Jose, to $5 million on the Peninsula and $3 million for East Bay sites near Silicon Valley's booming job market.

These land costs probably will translate into greater densities and more expensive housing when the new developments come to market, so buyers may not see much relief from the high prices that are being commanded by new and existing homes alike.

The aggressive bidding comes with a revived economy. Following the housing crash, the number of developments actively selling in the East Bay, South Bay and Peninsula dropped sharply as builders cut back on new projects, said Paul Desmet, who publishes an industry guide called the Ryness Report. From 2009 to 2013, the number of projects dropped from 298 to 158.

Now, with the increase in demand from the rebounding economy, "everybody's scrambling" to refill the pipeline, he said.

Builders worry about being able to meet the demand as many buyers, faced with a shortage of affordable existing homes and bidding wars on desirable ones, are turning to new housing developments where they can buy a condo or townhome at an advertised price before it's even finished.

Octavious Mendoza, 50, a mobile app developer, drove down from his home in Elk Grove this week to look for a house to buy in the South Bay for his two daughters, San Jose State University sophomore

Megan, 18, and her sister, Kirsten, 21, who works as an event planner in Sunol. By noon they'd given up on existing homes and were inspecting townhome models in the Berryessa Crossing subdivision KB Home is building in San Jose, where prices start in the $500,000 range.

Mendoza said existing houses in his $600,000 price range "were old and not very nice."

"These new homes are preferable. If you can get it new, why not?" Mendoza said. "I feel you can't go wrong buying a house in the Bay Area. The technology industry is not going away."

KB Home is developing 242 homes on the Berryessa site the Mendozas toured. The company acquired land around the Bay Area when the downturn flattened out a few years ago, said Chris Apostolopoulos, president of the Northern California division of KB Home. As a result, the builder has 21 projects selling homes around the greater Bay Area. Still, "right now there's an absence of new home communities of any size or scale," he said, because many builders stopped buying land during the housing crunch.

Rising costs, increased demand and not enough new houses for sale has helped send new-home prices up 13.6 percent in Alameda, Contra Costa, San Mateo and Santa Clara counties in May compared to the same month last year, according to DataQuick, a real estate information service. Existing homes -- also in short supply -- were up 18.7 percent.

Developments declining

The number of new home developments declined during the housing downturn, and developers are now scrambling to meet revived demand. New home communities selling units in the Bay Area:

298 '09
235 '10
187 '11
169 '12
158 '13
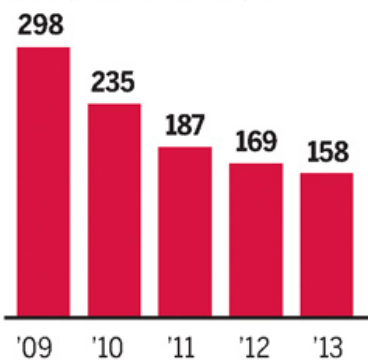
Source: Ryness Report
BAY AREA NEWS GROUP

Historically, the Bay Area has built much less housing for the size of its population than most other metro areas around the country, which sends prices up in periods of strong demand, according to Jed Kolko, chief economist with the online real estate site Trulia. With the ocean on one side and the Bay on the other, and mountains nearby, "there is less land to begin with," he said. "But on top of that, there are the regulations, the permitting costs, and all of the regulatory factors that make construction more expensive or more difficult."

These hurdles impact the market.

"There's a constrained supply both in new housing and resale housing, and prices are going up," said Layne Marceau, Northern California president of Shea Homes, which has homes for sale in four developments in Livermore, Dublin, Oakley and Bay Meadows in San Mateo.

With land so tight, developers are looking to the fringes of the Bay Area. Mountain House and Lathrop in San Joaquin County "are the two areas that are going to be able to supply lots," said Marceau.

The booming economy has created a "scary" situation, said Kevin Carson of the New Home Company, which has projects underway in San Jose, San Mateo and Lafayette.

"We're not going to be able to meet the demand. Everything takes longer," from the permitting process to finding labor and land, he said. "You've got to knock down an old strip center to build. Everything's a challenge. Just finding the labor force to get the danged thing built" is difficult, Carson said.

The New Home Company has three projects under way -- 261 townhomes in San Jose, 76 condos in San Mateo, and 56 luxury flats and condos in downtown Lafayette. Carson said he's bringing in trade workers from Fresno. "Some crews are from Portland, Ore., just to get it built," he said.

New-home sales in the first five months of this year were up about 12 percent across the Bay Area compared to the same period last year, largely on increases in the South Bay, according to DataQuick. Developments being marketed by Lennar, KB Home and DR Horton helped boost Santa Clara County sales. Sales for the same period were up 9 percent in San Mateo County, but down 6.7 percent in Alameda County and 0.5 percent in Contra Costa County.

Even with the increased activity, new home supply is not close to keeping up with new home demand. "I think we'll be lucky to match last year's volume in sales," said the Ryness Report's Desmet.

http://www.mercurynews.com/business/ci_26133490/bay-area-home-builders-struggle-keep-up-demand