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HOUSING SLUMP

Area builders cut back plans for 2008

By Alex Davis

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Home construction fell sharply in the Louisville area last year, and some builders are paring plans further for 2008, sending ripples through the local economy to lumber yards, heating and cooling companies and others.

Construction slowdown
Residential building activity has declined across the metro area since the peak of the national housing market in late 2005. A comparison:

| Location | Building permits | | | % Change from '05 |
|---------------------------------------|------------------|-------|-------|-------------------|
| | '07 | '06 | '05 | |
| Jefferson County | 2,098 | 2,378 | 3,212 | -35% |
| Clark County* | 399 | 447 | 630 | -37% |
| Floyd County* (single-family only) | 127 | 192 | 228 | -44% |
| Oldham County | 358 | 481 | 610 | -41% |
| Bullitt County | 406 | 526 | 672 | -40% |

*unincorporated areas only
Sources: county government offices
The Courier-Journal

One of the biggest homebuilders in the state, Dominion Homes, completed 200 houses in Louisville, Lexington and Georgetown in 2007, with an average price about \$20,000 lower than in 2005, when it built more than 500 homes during a nationwide construction peak.

Dominion, like other homebuilders, also is offering discounts of up to \$30,000 to help move some of its single-family properties, along with cash incentives for real estate agents.

Those and other cost-cutting moves are squeezing Dominion's profit, so operations director Terry Tracy said the company is "working with as few people as necessary" on its payroll.

Yesterday's surprise move by the Federal Reserve to lower a key interest rate by three-quarters of a percentage point might not reverse the local construction slump, according to Chuck Kavanaugh, executive vice president of the Home Builders Association of Louisville.

But it could help reduce the number of homes on the market, he said, because more affordable loans would open the market to more buyers.

Overall, the number of residential building permits filed in Jefferson County last year dropped 11 percent from 2006, and government records show that residential permits in Jefferson, Bullitt, Clark, Floyd and Oldham counties are all down by more than one-third since the nationwide peak in 2005.

"A lot of builders are sitting on property, and sitting on homes," said John Hughes, a developer of the Quarry Bluff subdivision in Utica, Ind. "They've really cut back, and it's not very good right now."

Contractor squeezed

Hughes said construction at Quarry Bluff -- an upscale development that includes about 50 homes selling for more than \$500,000 -- has been put on hold until the economy improves.

And one of the empty lots there was listed in a Clark County foreclosure auction this month -- it had been purchased by a builder.

Hughes said he expects 2008 to be another mediocre year for local builders, with a turnaround possible in 2009.

With many residential builders taking a wait-and-see approach in 2008, some of their main contractors are feeling the pinch.

Demand for air conditioners and furnaces in newly built homes, especially in suburban areas, has plummeted over the past year, said Jody Letson, sales manager at Production Heating & Cooling.

"If that's how you make your bread and butter, it will be a tough year" in 2008, said Letson, whose company has shifted to apartments and assisted-living facilities to weather the downturn.

The residential construction slowdown contributed to a double-digit percentage sales decline last year for Boland-Maloney Lumber. Sales manager Davis Boland, who represents the family's third generation in business, said he even had to lay off several employees late last year.

He's now reaching out to new clients in multifamily projects, remodeling jobs and light commercial work -- and hoping the downturn is temporary.

"The folks that have been here for the ups and downs say it's not that bad," Boland said. "It's just not the way it was two years ago."

The subprime crisis

Local builders and contractors believe the drop in residential construction is linked partly to the collapse of the subprime mortgage market last summer.

And they noted that building permits had hit a record high in many area counties in 2004 and 2005, just before the national housing market started cooling.

Louisville isn't the only city seeing declines.

The Commerce Department said last week that construction starts on new homes and apartments last year dropped 25 percent nationwide from 2006, the biggest decline since 1980.

And in its latest economic snapshot of the region, the Federal Reserve Bank of St. Louis noted that permits for single-family homes were down in Louisville, Memphis, St. Louis and Little Rock, Ark. -- although commercial activity for the overall region was up.

William Poole, the Federal Reserve Bank's president and CEO, said in an interview that cities in the nation's midsection, such as Louisville, might be more insulated from a housing slump because they didn't see the same price run-up that occurred on the east and west coasts.

And while he acknowledged that some analysts believe the nation is heading toward a recession, Poole said he believes the market already has absorbed much of the bad news about the lending industry.

"Even those who are speaking most loudly that we're in a recession have not taken action to reconfigure their own portfolios in a manner consistent with their being dead sure," he said last week of market analysts.

If there is a national recession, Richard Miles of Dogwood Homes said the traditional stability of the local housing market, combined with low unemployment and interest rates, will keep Louisville's residential construction market from slowing any further.

Dogwood recorded 143 home sales last year, and Miles, the company's owner and president, is projecting 175 this year -- mostly in Jefferson, Bullitt and Shelby counties.

Meanwhile, some builders, including Dominion, say they're focusing on smaller homes this year and buyers who agree to pay for the home before construction starts.

That move partially reflects tighter lending trends.

For example, Terry Tracy, area operations director for Dominion, said buyers who qualified for a \$180,000 loan a few years ago might now only be able to borrow \$165,000.

Kent Witten, of A.A. Properties in New Albany, said he laid off several people from his 20-person work force and plans to build 15 homes this year instead of the usual 25. He's also moving into light commercial work and looking for more remodeling jobs.

Smaller builders don't always have that luxury. Clarence Smith built two high-end speculative homes in 2006, but one of them, a sprawling five-bedroom brick house near Prospect in Oldham County, has been on the market since August 2006.

The current asking price of \$430,000 is down \$60,000 from the original listing, and Smith said he'll lose money on the house once he pays real estate commissions.

"There are a lot of people who want those kinds of houses that simply can't afford them," he said. And before last summer, "they were able to do all kinds of jimmying around to get the loans. You can't do that anymore. ... That market just completely stopped."

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