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Denver builders skirting bottom

New-home prices crashing nationwide

**By John Rebchook, Rocky Mountain News
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The subprime market meltdown is hitting home builders in the Denver area harder than anytime since the 1980s, when the economy collapsed in the wake of an oil and gas bust.

"We're probably going to see new home sales off 50 percent at the end of this year, compared with 2005," said Mike Rinner of the Genesis Group. "By comparison, we saw about a 20 percent decline after (the terrorist attacks) on 9/11."

Despite good economic news on almost every other front - the Denver area's resale homes showed the highest month-over-month increase in value in August compared with 19 other cities - there are signs the new-home market is struggling.

The dismal housing market is caused, in part, by a record number of foreclosures brought on by risky subprime loans and failing companies that backed the loans.

The latest example is the recent bankruptcy filing by Neumann Homes, a builder with a presence in Denver. The closely held company, based in Warrenville, Ill., said home building is down 50 percent in Denver. Neumann said prices are down as much as 25 percent.

"The company can no longer weather this storm," CEO Kenneth Neumann said in a news release Oct. 22.

The company has assets and debt of more than \$100 million each, with as many as 5,000 creditors, it said this week in a Chapter 11 petition in U.S. Bankruptcy Court in Chicago. It said last month it would seek court protection and had shut its offices and fired all but 20 of its 130 employees.

Denver-based MDC Holdings, one of the nation's largest home builders and parent of Richmond American Homes, has cut its work force by about 40 percent since 2006 and recently reported a \$155.4 million loss in the third quarter.

The loss came after years of reporting record quarterly profits. MDC Chairman Larry Mizel described the market as being in "turbulent times" in a recent Securities and Exchange filing.

Other national builders with a big presence in Denver, such as Engle Homes and Beazer Homes, are in worse shape.

Atlanta-based Beazer Homes is being investigated by the FBI in connection with mortgage fraud.

Engle's parent, Touse Inc., of Hollywood, Fla., has seen its stock drop to about 70 cents from more than \$22 two years ago.

Paris "Gary" Reece III, MDC's executive vice president and chief financial officer, summed up the market this way in a recent third-quarter SEC filing:

"We continued to battle adverse conditions in all of our home-building markets. As buyer confidence continued to erode and competition for new home sales intensified, we experienced reduced selling prices and increased incentive levels in most of our markets."

MDC closed 219 homes in Colorado in the third quarter, down 34 percent from the 334 in the third quarter of 2006. That is in line with the overall market, Rinner said.

This downturn is different from the one two decades ago.

In the 1980s, the area suffered from an economic crash after dramatic growth on rising gas prices. Denver and Colorado companies that invested in the boom collapsed when prices dropped to about \$12 a barrel.

In the Denver area, a record number of homes, apartments and condos were built to prepare for the growth that never came. Instead, tens of thousands of people fled Colorado for better economies in places such as California, often walking away from their mortgages, leading to foreclosure levels that only now are being toppled.

Colorado, Oklahoma, Louisiana and Texas were hit the hardest.

This go-round, there's an unprecedented crash in housing prices nationwide.

While experts said that they expect more companies to declare bankruptcy or flee Colorado before the market recovers, the worst may be over.

"I think it is going to end," said housing consultant S. Robert August. "Not tomorrow. But fairly soon. There's different fundamentals than in the '80s.

"I think the Feds will lower interest rates again, and mortgage rates are still low by historical standards. Apartment buildings are near record rental levels and occupancies are low. Our office market is strong, and builders are working to reduce their land inventory."

Rinner said he was encouraged by the most recent S&P/ Case Shiller report that showed Denver having the highest appreciation rate from July to August compared with 19 other cities. But he said foreclosures will continue to hurt the lower-end market in 2008.

"I'm hopeful with the numbers that we saw in the Case- Shiller index that we are just about bottomed out," Rinner said.

Top 12 builders (for all homes)

First eight months

2007 2006

Builder Sales Market share Sales Market share

D.R. Horton 819 9.9% 1,837 15.9%

KB Home 470 5.7% 719 6.2%

Richmond American 457 5.5% 632 5.5%

Engle Homes 377 4.8% NA NA

East West Partners NA NA 411 8%

Lennar Homes 310 3.7% 793 6.9%

Shea Homes 274 3.3% 365 3.2%

Standard Pacific 252 3% NA NA

Centex 250 3% 283 2.5%

Journey Homes 245 3.0% NA NA

Ryland Homes NA NA 342 3.0%

Oakwood Homes 243 2.9% 13 3.1%

Total 6,285 11,526 *Source: Hanley Wood Market Intelligence Report*

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