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Builders grow cautious as demand fades

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New home construction stalls in Fox Valley

By Ed Lowe

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Land developers are offering local builders like Tom Heegeman free use of their residential lots, hoping the incentive will spur speculation home building once again.

The Appleton homebuilder is “leery” of the offers, however. So are other past builders of “spec” homes in a market where the supply of new homes has surpassed demand for them.

“Normally, I’d have to purchase that property and carry that cost until the home sells,” said Heegeman, who with partner Tom Graf owns John Andrew Builders, a small firm building a few homes per year.

The free use of land “takes a little of the risk off of the builder, but I’m still leery,” he said. “I don’t think I’m going to do that just yet.”

Heegeman said the past year has been one of the best the firm he and Graf established at the front end of the regional homebuilding boom. Yet, he is gravely aware that new home sales demand has faded fast in the Fox Cities and surrounding areas.

“For me to stay busy, all I need is a couple of contracts, and this year the pieces just fell into place,” he said. “But now I’m asking myself what do I have in the works” beyond next March? “Once I’m done with this next home, I’m wondering where’s the next one going to come from?”

Housing start trend reports from the Wisconsin Builders Association paint a dark picture for the homebuilding industry during the first half of the year, with activity down 60 percent from a year ago.

The WBA data, compiled from U.S. Census reports gathered from more than 300 sites in the state, also show homebuilding in the state has declined each year since 2004.

Actual year-to-date housing starts in the three-county area served by the Valley Home Builders Association — including Calumet, Outagamie and Winnebago counties — show less evidence of a free fall, however.

The region was the site of 567 home starts through July this year, down 17 percent from the same seven-month period of 2006. The current-year numbers are down nearly a third from two years ago, when 845 new one- and two-family homes were built in the three counties that share the Fox Cities.

“When you look at the overall picture, it looks like gloom and doom, but in our own Fox Valley

area, it's not all that bad," Heegeman said.

Still, he said, the downturn in building has claimed some victims.

"I have heard of some builders that are reorganizing, or possibly claiming bankruptcy," Heegeman said. "My excavator said he won't put in any more holes in the ground for (one) builder because (that builder) is so far in debt to him."

Heegeman said his company will turn a greater share of its attention to home remodeling work if the local trend doesn't show signs of a turnaround. Other firms, some known only for building homes, are now seeking remodeling work, too, he said.

The decline in speculation building has been most pronounced in the areas that developed most rapidly in the recent boom years, area housing start tallies show.

Clayton Town Administrator Craig Clark said the town's revenue from park- and fire-service impact fees, collected when building permits are purchased, has fallen behind projections.

"It will have an impact on the town in terms of revenue, especially given what's likely to come down from the state in (continued) local levy limits, when we have to deal with things like rising asphalt costs for road construction and things like that. To some extent, that becomes less manageable," he said.

Clark noted the impact-fee projections are based on 20-year building patterns, however.

"I don't think we did overestimate, even though (the revenue) doesn't compare with what we see out there today," he said.

Clark said corporate downsizings and a general cooling of the local economy have diminished demand for the town's generally higher-end homes, which sell for an average of more than \$300,000 apiece.

"With the higher-level executives relocating, there are existing homes on the market," Clark said. "You can get a better buy for your dollar with an existing home."

Christine Schwanke, executive vice president of the Valley Home Builders Association, said the current pace of area home construction is less a crisis than a return to economic reality.

"The housing market is very cyclical, and those have been in the industry a long time are more prepared for these ups and downs," she said.

Schwanke said builders are reporting that demand remains relatively strong for new homes priced for either first-time buyers or "the extremely high end."

"It's that middle range, homes priced from \$300,000 to \$700,000, that has slowed to certain point," she said.

Builders are noticing that many new homebuyers are no longer seeking the largest homes they can afford. She noted this year's VHBA Parade of Homes featured 12 structures of less than 2,000 square feet.

“This year our builders wanted to help potential homeowners see that they can still afford high-quality homes including amenities that they normally would think are reserved for higher-priced homes.”