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Builders putting up surprising numbers

But land availability, cost rising concerns

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The housing industry took another leap toward the stratosphere in January, defying predictions that 2005 will be the year for a slowdown.

But finding land to build those homes is getting costly.

Starts on new construction soared to a 21-year high last month, paced by record construction of single-family homes. The Midwest saw a modest downturn, which was blamed on colder weather.

Some economists and those in the real estate industry have expressed fears that housing has become a "bubble" overdue for deflation. Others have expressed concerns about an impending spike in mortgage interest rates.

And yet another concern is the availability of land to build new homes.

The outsize plans for construction by major national builders are placing uncommon pressure on land availability, especially around the fringes of the Chicago area, where farms are being swallowed for subdivisions.

"In the west and northwest suburbs, there is very little single-family home development taking place east of Randall Road," said housing consultant Erik Doersching at a conference last week in Oak Brook.

As a result, much of the construction boom has shifted to such distant points as DeKalb, Sycamore, Oswego, Plano and Pingree Grove, and to the west side of Elgin. Doersching said there are 60 mega housing developments on the drawing boards, each with 500 or more units.

At least seven builders, alone or in partnership, are opening developments of 1,000 or more units in coming months. Several developments are planned for more than 2,000 homes. Nearly all such projects are 40 or more miles from downtown Chicago.

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The nearest area harboring large, unbuilt tracts of land is in the south suburbs, where major construction is taking place within 30 miles of the Loop, said consultant Steve Hovany of Strategy Planning Associates in Schaumburg.

Home builder Scott Pjesky said the pressure on land stems from "national builders, or what we call Wall Street builders, who are very aggressive and seem to have an insatiable appetite for land."

What they are seeking is property that has received municipal approvals, meaning they can start construction immediately, said Pjesky, of Kensington Homes in Naperville.

"Getting approvals from a suburb can take anywhere from 1 1/2 to 5 years, and these Wall Street builders don't want to wait that long," he said.

Pjesky's firm sold land and approvals for 300 units in 2003 to Cambridge Homes, which is a unit of Texas-based D.R. Horton.

Builder Christopher Shaxted of Lakewood Homes in Hoffman Estates said the demand for land "is putting pressure on everyone and has made some farmers very, very rich. It also is placing an upward push on the cost of houses."

Shaxted said his company sold land for about 300 homes in Naperville and Plano to a pair of national builders, Richmond-American and Ryland Homes.

He said suburbs are making demands on builders, including impact fees, off-site improvements, school donations and infrastructure work such as sewer and water systems.

Buying land in large parcels makes meeting those requirements more feasible, said Shaxted, whose company expects to sell 1,750 homes this year.

Doersching said the pressure on land is prompting builders to focus on townhouse construction, particularly in courtyard configurations in which 10 to 12 units can be built on an acre, up from 6 or 7 units an acre a few years ago.

As a result, it is possible to build a \$250,000 townhouse with indoor space about equivalent to a \$350,000 single-family home, said Doersching, of Tracy Cross & Associates in Schaumburg.

He said such townhouses "have become the price leader in the suburban market" and will comprise a growing share of new construction in the next five years.

In Chicago, Doersching said, the typical downtown condominium unit is growing smaller. It averages about 1,350 square feet, down from 1,650 square feet in the late 1990s.

The land squeeze is resulting in national builders acquiring property from independent local firms to keep the housing boom going full tilt.

Last summer, Lennar Corp., the parent of Concord Homes and one of the fastest-growing national builders, acquired 850 lots and 250 home sites in three developments from Phoenix Developers of Joliet for \$52 million.

Chicago economist Robert Dederick of RGD Economics said predictions of a construction slowdown have been commonplace, "but the pessimists have been wrong for many years in a row."

The 4.7 percent rise in nationwide starts in January, to an annual rate of 2.159 million units, followed a revised 14 percent surge in December.

The pace at the outset of the year surprised economists, most of whom have been calling for a decline of 3 percent to 5 percent in new construction during 2005.

"Housing is the industry that won't roll over and die," said Dederick. "Houses, however, are creatures of interest rates. There are some signs that froth is developing in the real estate market, and, if interest rates rise, housing will bear the brunt."

Hovany said there aren't any signs of a slowdown yet.

On a week-by-week basis, he said, local sales are tracking almost exactly the numbers for the 2004 boom, which he described as "a phenomenal year."

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