

February 23rd, 2015



By

Orange County's largest masterplanned developments are driving a bulk of the recent new-home sales in the region, but plenty of builders are also finding success buying land for residential projects off the beaten path.

Half of the county's top 30 builders by sales last year generated at least a portion of their 2014 sales from infill land sites in existing urban communities where land has been dedicated to new uses, according to Business Journal data (see list, page 20).

Notable entries on this year's list include Brandywine Homes, No. 17 on the list, an Irvine-based builder that specializes in infill development and has projects moving ahead in land-constrained markets, such as Yorba Linda and Costa Mesa.

Likewise, Irvine-based City Ventures Inc., No. 14, a 6-year-old builder whose business strategy embraces taking on hard-to-entitle infill sites larger builders tend to shy away from, notched 75 sales in the county last year and has projects for sale or in development in Garden Grove, Santa Ana, Costa Mesa and Yorba Linda.

Large builders, including some of the country's biggest publicly traded ones, have occasionally been tapping OC's infill development sites for a portion of their recent sales, although their strategies in the area differ.

Miami-based Lennar Corp., the country's second largest homebuilder by sales last year, ranked No. 6 on the Business Journal's list for sales last year. A large part of the sales came from the massive development going on at Great Park Neighborhoods, where it's an initial investor.

The company, which has large operations in Aliso Viejo, also had a significant number of sales last year at Central Park West, a 43-acre site near John Wayne Airport that was the first big infill redevelopment site in the Irvine Business Complex to feature for-sale homes.

On the other end of the spectrum, Irvine-based Standard Pacific Corp., the largest builder based in Orange County, made a bulk of its sales last year at new, large-scale communities in Brea and Rancho Mission Viejo. The company ranked No. 3 on this week's list but currently isn't selling homes at infill sites.

### **Best of Both Worlds**

Infill development is a key component for The New Home Co., according to Larry Webb, chief executive of the Aliso Viejo-based builder.

"We've looked at tons on infill," Webb said, with local projects as small as a few dozen home lots.

The company can also go large, as evidenced by Arantine Hills, a 1,200-home project it bought last year just over the Riverside County line in Corona.

New Home, which is selling the highest-priced homes at the new Orchard Hills community in Irvine, ranked No. 21 on this week's list with 42 sales in OC last year.

The company's strategy is a combination of larger communities and smaller infill sites, Webb said.

"We want to be in land-constrained areas."

New Home has one of the area's more prominent—and expensive—infill developments under way in Meridian, a 79-unit condo project being built next to Fashion Island in Newport Beach.

The project, which is going up on land next to the Newport Beach Marriott Hotel & Spa, previously held a tennis club. It began sales late last year with home prices at about \$2 million.

Among the smallest stand-alone projects on New Home's plate is Oliva, a 40-home project in San Juan Capistrano being built on 17 acres just off Del Obispo Street.

Home count doesn't play too much of a part in the company's decision-making when looking at infill sites, Webb said.

"It has less to do with the number of lots and more the amount all the houses will sell for," he said.

For a smaller project such as Oliva, where homes will be priced from \$1.6 million, the sales generated will justify the company's investment in the project, he said.

In general, larger builders looking at infill locations in OC and other coastal markets in Southern California are searching for sites that can accommodate 50 or more homes or that will generate at least \$25 million in total sales, according to recent data from Sal Provenza, a senior land adviser at Irvine-based brokerage WD Land.

Land sales in the area are currently trading at a finished lot price of 45% to 50% of the future home's price, but for some small local infill sites, public builders are willing to pay as much as 60% of the ultimate home price to acquire the land, Provenza said.

That's due in part to a reduced market risk for the infill projects resulting from a shorter time to market and sales period, in addition to public builders' ability to drive down construction costs because of volume discounts, vendor relationships, and other factors, according to WD Land research.

#### **Recent Deals**

Among national builders developing a sizable portfolio of smaller local infill sites is Scottsdale, Ariz.-based Taylor Morrison Home Corp., which has been snapping up properties along Costa Mesa's westside and in Newport Beach.

The company, which ranked No. 4 on this week's list, recently closed on land on Whittier Avenue and West 16th Street next to Banning Ranch, property records show.

Plans call for the land, previously used by an aerospace manufacturer, to be converted from an industrial site to an 89-unit residential project.

The site's prior owner, a Beverly Hills-based entity listed in property records as MW Bluffs Owner LLC, worked with the city to get the Lighthouse project of 49 residential units and an additional 40 live-work units.

Taylor Morrison bought the site last month from MW Bluffs. Terms of the sale were not disclosed.

The land was assessed at a little more than \$11 million last year, according to property data.

A time frame for the project hasn't been disclosed.

Taylor Morrison has two other infill communities in Costa Mesa under way and also has what looks to be one of the area's priciest infill developments currently on the books, a 24-home project called Echo Beach less than a block from the ocean in Newport Beach.

The site, just off Pacific Coast Highway, is now home to a midsize apartment complex called Las Brisas, which will be razed.

Taylor Morrison bought the property late last year from a seller with ties to Newport Beach-based developer Brooks Street. A time frame for the project hasn't been disclosed.

The property last traded hands in 2013 for about \$25 million.