

# Builders avoid boom-bust cycle

By Doug Funke  
staff writer

Conservatism in residential construction activity during good times makes life less painful for developers and builders when the economic climate changes.

Builders here — who tend to follow that philosophy — are faring somewhat better now than counterparts around the country, according to U.S. Housing Markets, a research publication of Lomas Mortgage USA, which has an office in Livonia.

Demand nationally for residential building sites is generally low, the report said. Builders are putting up fewer models, and some are even selling out of trailers in subdivisions. Project phases have become smaller.

"In Detroit, a tight-knit developer community is closely attuned to the local economy," said Wayne D. Ferguson, president of Lomas Realty USA.

"Because of the sharply cyclical nature of the auto industry, they've learned to smell trouble well in advance of a slowdown. Thus, the supply of lots in Detroit-Ann Arbor has stayed in balance."

Lot prices have skidded in Philadelphia, Dallas-Fort Worth and Tampa Bay, according to the report.

**CONSTRUCTION ACTIVITY** in southern California has collapsed, the report continues. California has lost nearly a quarter million jobs in the last year. Work on some houses has stopped in the middle of construction.

As for the metro Detroit-Ann Arbor area, the report found:

- No wide fluctuations in lot and land prices — no boom and bust syndrome.

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— Wayne D. Ferguson  
Lomas Realty USA

- The inventory of houses, completed or under construction, is moderate and manageable.

- The normally tight-knit, conservative development community has become even more so.

- Projects, which rarely exceeded 300 acres even in good times, generally are less than 100 acres now.

- Building permits through the first eight months of the year were down 13 percent.

Conversations with several builders here bear out many findings of the report.

"Builders have been burned here historically so many times that they're very cautious," said Sheldon Rose, president of Edward Rose Building Co. in Southfield. "Lenders here are extremely cautious. Lenders in this area are sound, and the reason is they have adopted prudent lending practices."

"I THINK we're a little more conservative," said Gary Shapiro, president of Ivanhoe Building Co. in West Bloomfield. "Developers keep close

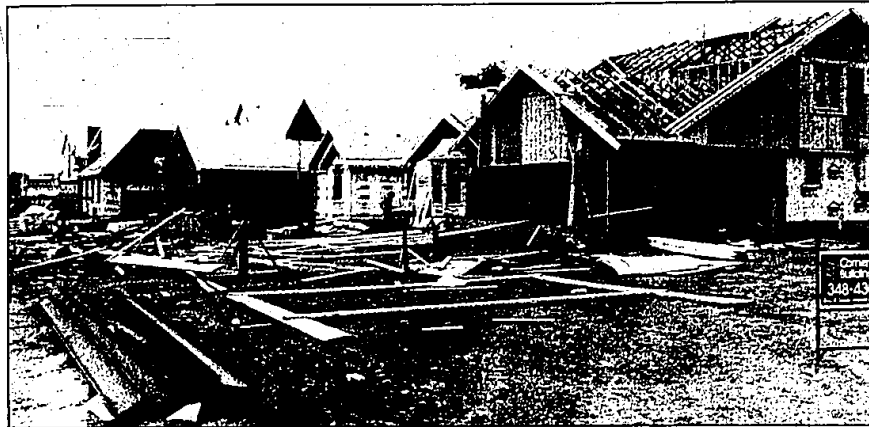


photo by ART EMANUELE/staff photographer

Builders and developers are cautiously approaching new projects thanks in part to a slowed demand and a tight lending atmosphere.

tabs on what market needs are and bring lots on in accordance with demand.

"Developers and builders have not been greedy or experienced wild inflation. We've kept prices reasonable, profit margins low and fair. In Michigan, we have a very astute buyer."

"I would tell you supply and demand are very much in balance," said Gerald Brody, vice president of The Brody Group in Bloomfield Hills. "We have slow but steady absorption. People are getting good value for money. There's no steals."

Many major builders in the metro area build on lots they develop. Few build spec houses. Both situations are good for profit margins.

"We generally build after we sell,"

Rose said. "I don't really attempt to plan too far ahead. If demand is there, we build. If it isn't, we don't. We don't do too much forecasting."

Rose, who described business as "a little on the soft side," is building houses in the \$80,000-\$90,000 range on 160 lots in Ypsilanti and houses for \$100,000-\$105,000 on 400 lots in Brownstown Township.

NEITHER SHAPIRO nor Rose intends to build fewer models due to a sagging economy.

But Shapiro said he will take a more cautious approach on potential building sites he's considering in Farmington Hills, West Bloomfield, Novi and Commerce Township.

"We'll watch the marketplace and

determine how large phases we'll do," Shapiro said. "We have done 80-85 (lots) in the past. We may split phases."

About 18 of 132 lots remain available in Mission Springs in West Bloomfield, where houses average \$250,000.

Nearly 70 percent of the 86 lots have been sold in Woodland Ridge, a joint venture with Biltmore, Shapiro said. Houses in that West Bloomfield subdivision average \$275,000.

"We've had good absorption. It's been steady," he said.

Brody said he would build fewer models today — "you're talking a tremendous amount of working capital" — and probably would bring

fewer units on line in initial phases unless demand would warrant more.

"What we're looking at (in the immediate future) is more off-site construction on individual lots. I still have lots in inventory I'm willing to sell off on the assumption the market isn't going to return in any great boom any time soon."

Brody has 10 of 45 sites left in Troy's Hartford Square, where his houses average \$179,000, and four of 23 left at Royal Pointe in West Bloomfield, where his models sell from \$250,000 to \$450,000.

Brody also is one-third built at Lochmoor, a 48-unit condominium development in Orion Township where units start at \$132,000.



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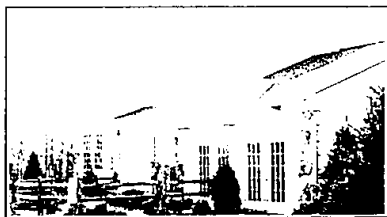
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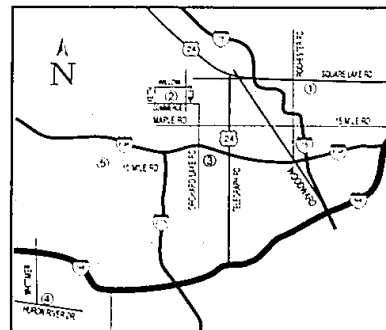
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