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## Housing slump slams brakes on construction

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Anthony Nicosia's savings and dreams are in three lots in a housing development off Clarksburg Road in Millstone.

With the market for new homes still suffering, now is not the time to take chances. Two lots on Stone Tavern Road are empty with overgrown weeds. The other has a 5,000-square-foot, five-bedroom home on it, just about ready for a would-be buyer to move in.

"We own these properties outright," said Nicosia, co-owner of Homes By Tuscany, a Marlboro builder. "When we sell a house, we will take the money from the sale and build the next one. That's the safe way to do it."

Builders have hunkered down waiting for a housing recovery that is still going to take some time. The result: Housing developments with blank spaces or roads leading to nowhere.

An entrance off Conover Road in Millstone leading to an empty development, Waterford Estates at Millstone, is closed off with a chain and a sign saying "No Trespassing." The developer, listed on a nearby sign as Signature Communities, could not be reached for comment. "We haven't heard anything from them for a very, very long time," Millstone Mayor Nancy Grbelja said.

The downturn in the housing market has hit new construction square on the chin.

New home starts, as shown by building permits, through November fell to 801 in Monmouth County and 813 in Ocean County, down from 1,526 and 1,527 in 2008, according to U.S. Census figures compiled by housing economist Patrick O'Keefe. In 2005, when the industry first started to see a statewide decline, the number of permits issued were 2,584 and 2,904, respectively.

Flush with an inventory of homes as the crisis began, builders cut back on new construction, said O'Keefe, director of economic research at J.H. Cohn LLC. By 2007, they had really put their foot on the brakes, he added.

The downturn in the resale home market put a damper on builders as homeowners couldn't sell their homes to buy new ones.

"Their bottom lines have been deeply in the red for the last couple of years," said O'Keefe, former chief executive officer of the New Jersey Builders Association. "It has just been a disaster from a business perspective."

So builders have had to adjust and cut back on building. Banks have been unwilling to loan money for construction unless a buyer is assured.

"You can have a situation where the street improvements are in place, (and) you have vacant lots because banks won't let them build on a speculative basis," said Doug Pittenger, president of the Shore Builders Association of Central New Jersey. "Think of it as mothballing."

It's expensive for a developer to carry an unsold house, including costs for construction, labor, bank finance charges and even property taxes.

"To a home builder, the slowing down on the pace of construction is just good business," said real estate consultant Jeffrey Otteau, president of the Otteau Valuation Group in East Brunswick.

Nicosia, the Marlboro builder, has stayed away from bank financing, building the house with his own money.

"We saw that the market was going sour," he said. "We knew that if we borrowed money, the carrying costs would have eaten us alive. We decided not to do that."

You don't have to think too far back in this housing market to remember what can happen when a builder runs into financial turmoil.

East Brunswick-based Kara Homes, one of the largest builders in Monmouth and Ocean counties, went belly up in October 2006, a victim of the housing market and a cash crunch.

It left Kara in tatters and about 300 prospective home buyers, some of whom had put down tens of thousands of dollars in deposit money, in limbo. Subcontractors were owed thousands of dollars for work.

Maplewood Homebuilders took over 13 Kara Home projects, including developments in Middletown, Jackson and Stafford. Lakewood developer Glen Fishman, an investor in Maplewood, said homes are still being built at the company's projects. Of the 13 developments, all but four will be sold out by June, Fishman said.

"We are building slower," Fishman said. There are plans to build one or two homes at Jackson Ridge for "quick delivery. That's really the market," he said.

There have not been many builders who have filed for bankruptcy, as Kara did, said Otteau.

"We have seen small builders close up and their projects be abandoned, but we have not seen any large-scale abandonment of projects other than what happened with Kara," he said. "We were all expecting a lot more."

Developers have made some changes to cope with the down market.

After breaking ground in 2006, about 25 homes at Pine River Village, an age-restricted community, in Lakewood were sold quickly, said Ralph Zucker, president of Somerset Development in Lakewood. But six months after the start of construction, the company started to feel the downturn in the market, especially for the demand for senior homes.

"Although we have limited sales, it can't keep pace with the cost of carrying the land, the development," Zucker said.

In mid-2008, residents there asked the township to rezone a large unbuilt section of the community, about 85 homes, to allow for single-family homes. The move should increase demand for both, Zucker said.

"It was a smart use for everybody," Zucker said. "We were only able to do it because the community who bought there themselves were interested in this change of character."

Rabbi Ronald Gray, a resident at the Pine River, said the change has "almost unanimous" support.

"We recognize the reality of the current real estate market," Gray said.

The developer has agreed to separate the two developments, which each will have their own entrances, road networks and names. The new single-family development will be called Somerset Walk, Zucker said.

"We now have to dot the i's and cross the t's," Zucker said. "Once that is done, we hope to move

forward on both products aggressively."

Meanwhile, the company has started construction at two other developments in Lakewood, with buyers moving in within the next two to three weeks.

"We are being very careful in how we go about it. We need to have enough presales to start a community," Zucker said. "We are not going to build on spec."

Nicosia, the Marlboro builder, said he hopes his home in Manalapan will be sold soon.

"We have brought the price down, and now we are seeing a little more action with people" interested in the home, he said. Workers still have to put in the wood floors, kitchen and other finishes.

Pittenger, co-owner of Pittenger Builders in Neptune, said his company, which concentrates on commercial development, is not building residential now. "We are going to start a house this year, a spec house, and see how that goes," Pittenger said.

Pittenger said he thinks the market reached a bottom in 2009.

"It make take a bit of time, but I think we will gradually work our way out of this," he said. "The most important thing was just finding the floor."

The market is getting better, and builders' inventories of homes have been slashed, Otteau said.

There is likely to be a large surge of new construction sales next month through April, timed to a \$6,500 tax credit for home buyers who sign a contract by April 30, Otteau said.

Also, construction typically surges in the three years following a recession, as job losses end and housing demand increases, Otteau said. "We can look for new construction activity to increase by about 50 percent over the next three years versus what we are seeing here now," Otteau said.

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