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Sudden Rise in Home Demand Takes Builders by Surprise



Gerraldo Zambrano working last week on a new home in a Folsom, Calif., development.

By [CATHERINE RAMPELL](#)

SACRAMENTO — After six years of waiting on the sidelines, newly eager home buyers across the country are discovering that there are not enough houses for sale to accommodate the recent flush of demand.

“In my 27 years I’ve never seen inventories this low,” said [Kurt K. Colgan](#), a broker with [Lyon Real Estate](#) in the Sacramento metropolitan area, where the share of homes on the market has plummeted by one of the largest amounts in the nation. “I’ve also never seen a market turn so quickly.”

The housing turnaround seems to have caught almost everyone in the business by surprise. As desirable as the long-awaited improvement may be, the unusually low level of homes for sale is creating widespread problems for buyers and sellers alike, leading to bidding wars and

bubblelike price jumps in places that not long ago were suffering from major declines. In the Sacramento area, where the housing bust took an especially heavy toll, the median sales price has surged 15 percent over the last year, [according to Zillow](#).

Nationwide, sales prices rose 7.3 percent over the course of 2012, according to the [Standard & Poor's Case-Shiller](#) index, ranging from a slight decline in New York to a surge of 23 percent in Phoenix. Tracking more closely with the national trend were cities like Dallas, up 6.5 percent; Tampa, which rose 7.2 percent; and Denver, which gained 8.5 percent.

In many areas, builders are scrambling to ramp up production but face delays because of the difficulty of finding construction workers and in obtaining permits from suddenly overwhelmed local authorities. At the same time, homeowners — many of them lifted above water for the first time in years — often remain reluctant to sell, either because they want to wait and see how much further prices will climb or because they are afraid of being displaced in the sudden buying frenzy.

“You see a home go for sale and within a couple days there are three, four, six offers,” said Carrie Miskawi, a mother of three young children who has been looking for a new home for the last six months with Mr. Colgan’s help. She and her husband have decided not to put their current home on the market because they fear it will be snatched up before they have a chance to bid successfully on a new one.

“It’s kind of a Catch-22,” Mr. Colgan said. As long as large numbers of people are hesitant to put their own homes on the market because so few other homes are available, he said, there won’t be many homes available.

Across the country, the raw number of homes for sale is at its lowest level since 1999, according to the National Association of Realtors. In the Sacramento metro area, home listings were down 60 percent in January from a year earlier, compared with 23 percent for the country over all, according to Zillow.

Inventories have been whittled down largely because new construction ground to a standstill for several years. Investors large and small have also scooped up most of the backlog of [foreclosures](#) and short sales; about 40 percent of all homes bought in Sacramento County over the last year were purchased by owners who currently live at a different address, according to county records and title data provided by the Fidelity National Title Insurance Company.

But steady job growth has put more people back to work, and families that put off moving because they couldn’t afford it are finally ready to do so. “Distressed” sales are down and conventional sales are up.

Extraordinarily low mortgage rates don’t hurt, either.

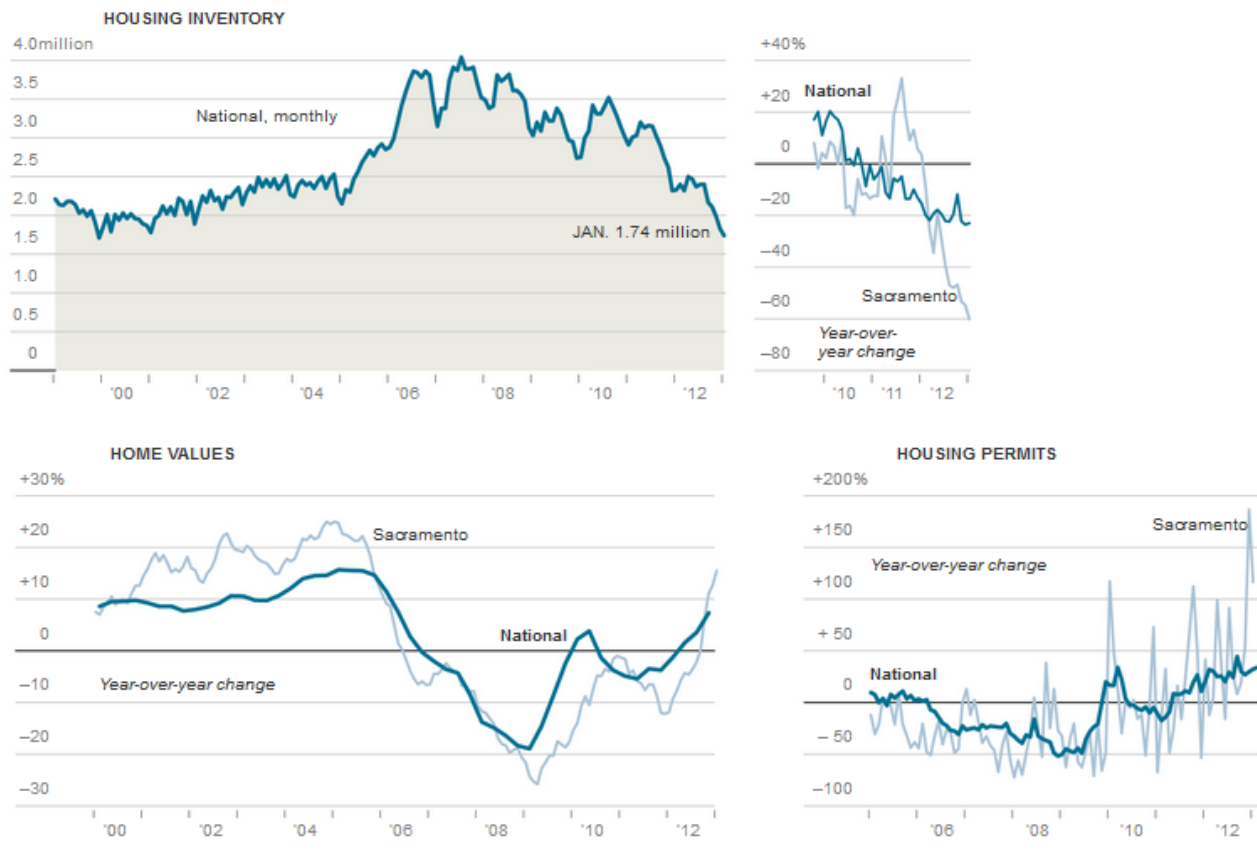
“The recovery is real,” said John Burns, chief executive of [John Burns Real Estate Consulting](#). “But the pace of the recovery has an artificial component to it.”

Some real estate agents in Sacramento, like [Tom Phillips](#), have resorted to knocking on doors in desirable neighborhoods to see if the owners might, if asked nicely and promised a healthy gain, sell to one of his clients. One couple he represents, Darcey and Jason Schmelzer, just moved into a yearlong rental with their two boys because they sold before they could find a new place. They received four offers on the first day they put their home on the market, with the winning bid about \$10,000 above asking price.

For the builders who survived the collapse, the tight market is a signal to get back to work.

Housing Is Finally on the Mend

More than six years after the housing bubble burst, the industry is beginning to recover. With the available supply of homes down to levels not seen since 1999, prices have begun to rise and home builders are responding by planning to construct more homes than at any time in the last eight years. The trend is particularly pronounced in places like Sacramento, which was hit especially hard during the downturn. [Related Article »](#)



Sources: National Association of Realtors; Zillow; S&P Case Shiller; Census Bureau

Monthly permits for single-family homes in the Sacramento area more than doubled from January 2012 to January 2013, though they are still only a quarter of the level they reached during the bubble. Nationally, the construction industry added 48,000 jobs in February, the biggest increase since 2007.

The housing upturn looks set to continue, finally adding a crucial element of support to the slowly improving economy. The government reported Tuesday that housing permits, while far below their peak, surged in February to their highest level since June 2008, an increase of nearly 34 percent from a year earlier. But it will still be many months before new homes now going through the approval process will be ready to move in.

[The New Home Company](#) has ramped up building as fast as it can, said Kevin S. Carson, the president of the company's Northern California division. Founded in 2009 by the veterans of a major home builder that filed for bankruptcy during the crisis, the company plans to build 120 homes in Northern California this year, in contrast to 50 homes last year.



Kevin S. Carson, president of the New Home Company, in a new development in Folsom.

Construction is expected to take longer than usual, though, and expenses are rising, Mr. Carson said. That is primarily because after six years of almost no local building, skilled labor is scarce.

Many workers in the immigrant-heavy industry have left the area, returning to Mexico and other points south. Others pursued work in Texas's energy boom, where both drilling and construction jobs have become more plentiful. Those who stayed in the local area often switched to medical data entry, U.P.S. delivery services, or anything else that they could find. Or they filed for disability and dropped out the labor force altogether.

Some, like the 38-year-old electrician Gideon Jacks, are gingerly returning to construction work after taking a hiatus (in Mr. Jacks's case, the hiatus was in several low-paying jobs at restaurants), but others remain reluctant to return to the hard physical labor and unstable job prospects.

"They say, 'That's the last time I'm riding that roller coaster,'" said Rick Wylie, president of the [Beutler Corporation](#), a Sacramento air-conditioning and plumbing company. In 2005 he employed 2,100 workers, but by 2009 Beutler had only 270 employees. Mr. Wylie, who currently employs about 550, is now having trouble luring back many workers he let go.

"I don't mean to complain," he said. "This is a good problem to have, a world-class problem, to not be able to find workers to do all the work you're getting."

The shortages aren't limited to the workers toiling in the hot sun, either.

"You walk into the permit office, and it's like a ghost town in there," said Michael Haemmig, president of [Haemmig Construction](#) in Nevada City, Calif., about an hour north of Sacramento. He says local governments were caught off-guard by the suddenly renewed interest in building and do not have enough people in place to handle the paperwork.

"This being California, we have more regulations and permits than ever, and it takes more time to get each permit approved," he said.

For builders still hesitant to dive into the market too deeply, such delays may actually be welcome, since they help buy more time for prices to rise further.

"If we could build 500 houses right now, could we sell them?" asked Harry Elliott III, president of [Elliott Homes](#), a century-old company that built 250 homes last year and plans 350 this year, compared with a high of 1,400 in 2006. "Possibly, but I don't want to sell all my lots that I've held on to forever and have to give them away at these prices."

We lost money for a lot of years, and I'd like to make some money for a change," he added. "I'm not building because I need the practice."