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A Cautious Path for Builders

The slump has forced contractors to adjust pace and pricing in new home construction

By Robert Preer, Globe Correspondent | October 28, 2007

Since late 2006, Canton builder Can-Four Corp. has been marketing homes in a 24-lot subdivision the company is constructing in Norton. So far, 10 have sold at prices ranging from \$529,000 to \$750,000.

"While we're not overjoyed, considering the overall market, we're satisfied," said Can-Four vice president Judy Jenkins. "We're making sure we're building a very good product, and we are making sure it is competitively priced."

The downturn in residential real estate here and across the United States has prompted builders of conventional subdivisions in Massachusetts to make adjustments - in both strategy and expectations.

Builders are cutting prices and offering other financial incentives to entice increasingly selective buyers. The developers of the Zain Ridge condo development in Milford recently offered free Toyota Camrys to purchasers of new homes.

Builders are also cutting back on starting new construction. Permits to start new homes in Massachusetts - already down 25 percent from last year so far - may hit a 28-year low, according to a recent report by the Center for Urban and Regional Planning at Northeastern University.

Jeffrey Rhuda, business development manager for Symes Development LLC of Beverly, said that despite the market's troubles, his company is maintaining its pace of about 16 sales a year in its 55-lot Prescott Farms subdivision now under construction in Bedford.

"I'm not saying prices haven't moved because they have," Rhuda said.

Statewide home prices dropped 4.6 percent in the third quarter this year compared with the same period last year. The number of homes sold was down 5.5 percent.

Some builders have adapted to the new realities by focusing on one of the market's healthier segments - the upper end. Buyers of luxury homes are less likely to be affected by the subprime mortgage meltdown, and many are in financial situation where they don't have to wait to sell a home before buying another.

"If you have a very special location and a quality high-end project, you can achieve extraordinary sales results even in a down market," said Tom Hastings, Hingham developer.

Hastings' firm, the Hastings Companies, has built a range of projects over the years, including manufactured home parks and conventional subdivisions. The firm's main housing development now is a luxury project on the Back River in Hingham with 45 homes ranging in price from \$825,000 to \$1.4 million.

The market slump has prompted nearly all builders to slow the pace of construction, and they are especially cautious about speculative projects.

"It still makes sense to build a house on spec," said Gil Campos, a broker with CamposHomes of RE/MAX in Foxborough. "People want to see what they're getting before they buy. You just don't want to build three of them."

Despite these problems, residential real estate in the state does not appear as troubled as it is in other parts of the country, according to analysts and real estate professionals. Restrictive zoning, scarce buildable land, and conservative lending practices have prevented the huge oversupply of new homes that has arisen elsewhere in the United States.

"We haven't built enough to keep up with demand," said Jenkins, who is senior vice president of the Home Builders Association of Massachusetts. "We don't have the big empty subdivisions we're seeing in other parts of the country."

Newly built conventional subdivisions remain scarce in metropolitan Boston. Most of the new homes that have been recently constructed or are in the development pipeline are either senior housing or multifamily developments allowed under state antisnob zoning laws or other incentive programs.

According to brokers and builders, prices for new single-family detached homes bottom out at around \$500,000 - out of the range of most first-time buyers.

"Single-family new construction inside or adjacent to Route 128 is a rarity," said Rhuda. "It is extremely hard to find a suitable piece of land." Added Jenkins: "I don't think you can get a cheap, new house around here. New single-family homes for the first-time buyer are not available."

With the residential market in a state of flux, setting prices can be difficult for builders of new homes, according to Campos. "The challenge is getting the price correct. There aren't a lot of comparables."

Hastings is planning a conventional, 100-acre subdivision in Foxborough, but has not yet determined prices for the houses. "We're going to make that judgment when we get our approvals in the spring," he said.

Greg Speir of Maystar Realty Corp. in Foxborough said he is targeting upscale buyers and taking a go-slow approach to construction of Stonehurst, a 40-lot subdivision in Foxborough near the Mansfield line.

Speir describes the development as "big homes on big lots" - Colonials of 4,500 to 9,000 square feet on lots of 60,000 square feet to two acres. He has been building just two or three homes a year, with recent sales in the low-million dollar range.

Speir said building slowly is prudent in this market, and he is confident the homes will sell. "People know they are going to get a good buy this time," he said.

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