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Developers look for deals on dirt

Generational property owners are in a position to wait, while those who have recently purchased land may be more motivated to sell.

By: Leslie Shaver

With fewer projects breaking ground and less demand for parcels to build on, it would make sense that landowners might back off their pricing demands.

Construction loans have been increasingly difficult to secure over the last couple of years, and many equity providers have also pulled back from the market. As a result, apartment starts have cratered, most recently dropping 21.8% year over year to a seasonally adjusted rate of 363,000 in July.

But prices are only dropping in certain instances, experts tell Multifamily Dive. In fact, many developers haven't seen costs budge that much yet.

"Land is an interesting thing because it doesn't move as fast as you would think," Ric Campo, CEO of Houston-based Camden Property Trust, said on the REIT's recent earnings call. "The sellers, just like the sellers of existing apartments, are unwilling to drop their prices."

But not all landowners are the same. Like everything in real estate, there are regional variations in costs. In addition, finding comprehensive pricing information for multifamily parcels is difficult, with many single-family data providers unable to produce apartment data.

The seller's financial position may play an even bigger role in whether a price cut is on the table. Long-term holders are in a position to sit and wait, while those who have recently purchased the dirt may be more motivated to make a deal.

"Where the opportunity can be — and we've generally seen this in past cycles — is that you have developers who own land who have been positioning to start the development, and they can't start the development because the debt and equity markets won't allow it today," Campo said. "And so… they write off their soft costs, and then they sell the land."

A largely stable market

In the early- and mid-2000s, cheap debt caused bubbles throughout the real estate market, whether single-family, condominiums or land.

“In the great financial crisis, there was a lot of leverage in land positions and across the market,” said Greg West, CEO of ZOM Living, an apartment developer based in Orlando, Florida. “That leverage created a great deal of stress in that market at that time.”

But that taught investors a lesson: Don’t pile debt on land positions, which won’t produce the monthly cash flow that a built property will. “The amount of leverage in the land positions has really changed,” West said. “There’s not nearly what it was back then. So I think that has created more stability in that market.”

West said that discipline among landowners has kept prices from falling for 15 years now. The National Association of Realtors’ 2023 Land Market Survey showed the value of commercial land increased 1.8% in 2023 after jumping 6% in 2022. Residential land ticked up 2.9% in 2023 after soaring 10% in 2022.

“Some [people] have had land in their family for several generations,” said Blake Schroeder, executive managing director of multifamily at Leon Capital Group, a Dallas-based holding company that owns, manages and develops apartments. “They’ve got a number in mind, and that’s their number.”

Scott Maddux, CEO of Westlake Village, California-based rental housing developer and operator Sunstone Two Tree, found this out firsthand in 2021 when he bought a 29-acre lot in Glendale, Arizona. Sunstone Two Tree closed on the parcel in late September 2023 and is building a 320-unit rental community.

“We bought this piece from a farmer that had owned it for multiple decades,” Maddux said. “He was happy to just kind of hang out until the right guy came to pay the price that he felt was fair.”

Although many long-term landowners may not be budging on price, they are being more flexible and adjusting in other ways, according to Greg Bonifield, founder of Charleston, South Carolina-based apartment developer Woodfield Development.

“We’ve certainly seen landowners be more willing to work with us and give us time to put our capital together,” he said.

Developer deals

Long-term holders like farmers may not be willing to lower their asking price for dirt because they’re not under pressure. But apartment developers are a different story. They’ve been sitting on land waiting for financing. However, many can’t carry those costs forever.

David Laube, principal of Atlanta-based Noell Consulting Group, hasn’t yet seen scrambling and selling land for discounts. “I wouldn’t say we’re starting to see pain yet,” he said.

However, Laube is starting to see developers who might have seven deals under contract and are only getting debt on a couple of projects. “They might only get two of those financed,” he said. “So what are the two we really want to place our bets on?”

Schroeder has seen several shovel-ready opportunities where developers have projects entitled but can’t get them capitalized. “You hear of developers that are looking to flip out of land positions,” he said.

The financing delays can also create a sense of urgency for a landowner that controls a piece of dirt that a developer had entitled and previously controlled under options.

“The developer spent six months, dropped it and [the land owner] is getting fatigued,” Schroeder said. “They have been dropped and they need the certainty of closing.”