



JOHN SEVERSON/THE ARIZONA REPUBLIC

Meritage Homes, like many builders, offers incentives to prospective buyers of built houses. Would-be buyers, however, are having trouble selling their Valley homes.

Arizona builder's troubles reflect hard times in housing

HOUSING

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ing land and other assets such as speculatively built homes.

A few weeks ago, Los Angeles-based KB Home reported a second-quarter loss of \$148 million and a \$308 million write-off on land and inventory. Florida-based Lennar Corp., another housing giant, also reported a loss and write-offs last month. Both companies build in Arizona.

Housing is Arizona's biggest industry, and the slowdown in building ripples throughout the economy from job losses at contracting firms to weaker sales at furniture stores.

Analysts and builders are now looking to 2008 for any kind of market upswing.

"One hundred million dollars is a lot of money, but I am not surprised by Meritage's write-down," said national housing analyst Tim Sullivan of the San-Diego based Sullivan Group. "Every builder is doing it now. The housing market has some more pain ahead of it."

RL Brown, publisher of the *Phoenix Housing Market Letter*, is downgrading his earlier forecast for home

building. In January, he predicted 41,000 new homes could go up Valley-wide. That compares with 42,460 new-home permits issued in 2006 and a record 63,570 in 2005.

In June, Meritage warned that April and May homes sales were weaker than expected. About the same time, overall home-builder confidence in the industry dropped to a 16-year low, renewing concern that the housing slump was not over.

New-home cancellations have left the Valley's housing market with at least 20,000 homes built but unsold. Builders have offered hefty incentives of \$50,000 and more to sell the houses, but many potential buyers can't sell their existing homes.

The result is a glut of homes for sale that is putting pressure on prices and dragging down the market.

"Weak demand and high inventory levels have increased competition among home builders, pressuring margins, despite reductions in new-home starts, lot supplies and operating costs," Meritage Chief Executive Steve Hilton said.

Meritage's write-off translates to about a \$60 million hit to its second-quarter in-

come. During this year's first quarter, the company reported a net income of \$15 million, compared with \$79.7 million the year before. Analysts expect to see more of the same problems among other big U.S. builders because the companies need to sell their spec homes and excess land.

In 2005, investors inflated demand for new homes. Builders rushed to buy land, often paying top dollar, and construct homes fast enough to keep up with demand. But prices peaked in many speculator-driven markets like Southern California, Las Vegas, Phoenix and Florida, and demand plummeted.

The value of some land bought during the market frenzy has fallen since then, which accounts for a lot of the recent home builder write-offs.

For example, if a builder purchased a lot for \$100,000 but it's now valued at \$75,000, accounting rules require the builder's balance sheets to show the drop.

Meritage is taking a \$25 million write-off from an acquisition it made in Florida. No specifics were given on the rest of its charges.

"It's the market correcting," Sullivan said.