Why aren’t more builders building homes?

By Paul Weideman

The inventory of homes on the market continues to be very low, only about 20 percent of what was available in Santa Fe before the onset of the recession in late 2008. Why aren’t lots of builders busy building new homes to correct that imbalance?

"Part of the reason is that after the recession there were a lot of builders that closed up or left or went into different careers, so now there’s a shorter supply of builders and a shorter supply of all the subcontractors to perform the work, so we’re lacking labor support," said Rob Gibbs.

He built about 75 new homes a year between 2000 and 2007. Last year, he built 18 houses.

The City of Santa Fe and Santa Fe County issued about 685 permits for single-family homes in 2000. In 2005, it was about 625. But by 2010, the number of residential permits issued had shrunk to fewer than 250. Of course, the late 1990s and 2000s saw substantial development in three large subdivisions: Tierra Contenta, Rancho Viejo, and Nava Ada.

In 2018, the number of permits issued was back to about 470 — much of the spike attributable to the Los Soleras subdivisions that national builder Pulte Homes is developing near I-25. This year, the permit number was nearly 350 through August.

Another significant factor for the sluggishness of the new-home industry here is reluctance by banks to provide financing for spec homes. "If you had a buyer and it was presold, it was not a problem," Gibbs said. "And then there was virtually little to no residential development being done, few new lots after the recession. In the last 18 months, Pulte has been just rolling along, but there are no lots for small subdivisions.

"Part of that is because the requirements for getting financing to do the development were nonexistent. There’s really been only one lender, Washington Federal, in Santa Fe that was willing to do that.

"Contractors have also been dealing with price increases on lumber and other materials. "All your main components — drywall, concrete, steel, electrical and plumbing — have all gone up, and some of the tariffs that have been put into place have impacted electrical and plumbing components, because not everything’s made in America," Gibbs said.

There is still a problem because a lot of workers had to go back to Denver or Albuquerque or even Mexico in the recession? "Absolutely," Gibbs responded. "There’s a lot of labor force that just left for lack of work and went on to other markets that picked up faster than us, because Santa Fe was a few years slower than the rest of the country, so we don’t have that same labor pool we once had."

Homewise, which specializes in the affordable-home market, kept building houses right through the recession. "We just had to be really smart and deliberate about it, and understand what was possible," said the company’s executive director, Mike Loffin. "We are trying to pick up the pace a little bit today because of the housing supply problem."

In the pre-recession market, Homewise had a goal of providing its clients with 50 houses annually. During the downturn, that mark wasn’t always achieved. "You still had
to be careful because people were skittish when people are afraid about losing their jobs they get more cautious about buying a home. And there was all this misinformation which there still is, that you need 20 percent for a down payment, but our typical downpayment is as low as 2 percent, and we have home purchase advisors to help you get there.

"The good thing about the recession is you could buy an existing home, you could buy a Bellamah home, on the regular resale market that people could afford. And we did a lot of distressed properties, properties that were in foreclosures we helped a lot of people buy those. That's all gone now. It's gone back to the way it was pre-recession when the new construction is going to be more important."

This year, Homewise has a target of putting up 60 homes. The last of the 40 single-family homes in its El Camino Crossing project off Agua Fria Street was completed in the spring. The company is now working on 13 condominiums, then will do 24 live-work units in the same subdivision.

Loftus said construction costs are up, but added, "There's not a whole lot you can do about it. So one of the things we're doing is building a smaller option that's more affordable. At least it gives people a step to get started."

Gibbs, who has his own company, Arcte Homes of Santa Fe, is also building smaller than he did before. Gibbs had his own companies, BT Housing and BT Homes, then was the real estate development manager for Homewise for years before starting Arcte. His main project is Villas di Toscana in southeast Santa Fe.

"Smaller is definitely what we're targeting," he said. "Our buyer profile has aged and we're getting a lot of buyers in the Santa Fe market that are moving down to something smaller and more manageable. That's been our business model for the last three years. The majority of our buyers in Villas di Toscana have been 60 and older."

Will Prall, Prall Custom Builders, offers a contrast at the upper end of Santa Fe's housing market. "I would say the demographic is smaller, but when people come to us we say they want a 2,700-square-foot house; once we do the floor plan with all the rooms and spaces and room sizes they want, it ends up being more like 3,200," said Prall, who just won his second consecutive "Grand Hacienda" award in the Parade of Homes. "Our average is 2,100 to 4,500 square feet and a quarter of our clients want more than 4,500."

Prall is busier than ever. "Right now we have three going up in Black Mesa, two others in Las Campanas, one in La Tierra Nueva, one at Spanish Hill in the Summit, and one up on Ponderosa Ridge by St. John's College. And we're starting a large contemporary house out on Tosquite Ranch Road. We usually have eight or nine going at one time."

Tierra Concepts is another high-end builder, and one with six "Grand Hacienda" awards hanging in its office. Kurt Faust, one of the company's three owners, said the problem of banks still clench after the recession is almost moot. "Half of our customers aren't cash, or they could be, and so that is the thing that helps to insulate us from that problem of the banks not lending. But materials and labor have just gone crazy the last couple of years. It's awful!"

Still, Tierra Concepts is as busy as it's ever been. The firm will build nine or 10 houses this year. That's about the same as in 2005, but "the houses are bigger and more complicated," Faust said. "The larger problem is to do with the supply of people. If you recall, building permits were down 78 percent in the recession, and, during that period, probably 75 percent of the builders went out of business. I know many of them that retired or quit or found other work. There was a lot of attrition and we have not really seen a new stable of subcontractors come back into the market."

"I don't know that middle end [of Santa Fe's building industry] as well, but Rob Gibbs was having similar problems to us. Usually we could build one of these big houses in about 12 months, and now almost every one is taking three months longer just because of the shortage of labor."