

Irvine Co. Said To Be Hiring Homebuilders

Real Estate: In shift, company paying fee builders, holding homes

By MARK MUELLER

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Irvine Company is looking to spur homebuilding on its land with a shift in strategy, according to real estate industry sources.

The company plans to pay builders to put up houses in Irvine and retain ownership of the land and homes until they're sold to buyers, sources said.

Irvine Co. declined to comment on the speculation.

Under what's being called an "executive builder program," homebuilders would work like general contractors without an ownership stake in the homes they put up, sources said.

The practice has been used before by large land developers.

It's a shift from years past, when homebuilders would pay top dollar for Irvine Co. lots and then build and sell their own homes.

But with few homebuilders buying land for homes during the downturn, the program allows Irvine Co. to continue development plans, sources said.

"The biggest ramification is that they would start construction on the Irvine Ranch again," said John Burns, founder and Chief Executive of Irvine-based John Burns Real Estate Consulting Inc.

Under the plan, homebuilders would be paid a percentage of a home's sales price for their work, sources said. They put that rate at 3% to 6% of the home's price.

Irvine Co. would finance construction loans, they said.

The executive builder program is expected to start on upcoming phases of Irvine Co.'s Woodbury and Woodbury East developments.

The program also could be used as Irvine Co. moves ahead on its delayed Orchard Hills development planned east of Orange and Anaheim Hills, according to sources.

At least six homebuilders have been tapped for the program, according to sources.

They're said to include three homebuilders that have built on Irvine Co. land before: Fairfax, Va.-based Brookfield Homes Corp., Los Angeles-based KB Home and Denver-based Richmond American Homes, part of MDC Holdings Inc.

Another is Riverside-based Van Daele Homes.

Startup Builders

Two others are said to be startups formed by former executives of Irvine-based John Laing Homes and William Lyon Homes Inc. of Newport Beach.

One is said to be a company started by Lawrence “Larry” Webb, the former chief executive of John Laing Homes.

Like most large California land owners of late, Irvine Co. has seen housing construction slow and land sales crawl to a halt amid the downturn and financial trouble at homebuilders.

In the past, Irvine Co. set up deals that proved profitable during good times and that also shielded the master developer from harm in the event of a downturn, sources said.

Typically, companies tapped to build at Irvine Co. developments closed escrow on land immediately, well before construction started. The builders maintained ownership of the land throughout the construction process, building to Irvine Co. specifications.

Along with being paid for the land, Irvine Co. reportedly shared in profits after builders sold finished homes.

The new program could work for Irvine Co. and builders during what’s expected to be a continued slow market for new homes in the county.

[Builders have had trouble getting bank financing for projects. Having Irvine Co. as financier would take away much of the upfront risk, according to Barry Gross, president of Irvine-based consulting firm Developers Research LLC.](#)

While profits might be lower than what builders saw during the peak a few years ago, the income would be welcome in today’s housing market, most sources said.

In the case of the companies Webb and the former Lyon executives are believed to be starting, getting their homes featured on Irvine Co. developments could help generate interest elsewhere.

For Irvine Co., the program should allow it to generate activity on its developments, unlike other developers that have seen big OC projects stall.

Because Irvine Co. already owns the land, the program isn’t as much of a financial strain for the company as it would be for other developers, sources said.

Irvine Holding Up

Even in a down housing market, lots in Irvine are among the strongest sellers.

At the July 11 opening of Irvine Co.’s new Woodbury East community, William Lyon Homes reported quick sales at the first phase of its Ivy development.

The 13 smaller-size townhomes put up for sale by the builder—which start in the \$300,000s and top out at 1,500 square feet—sold 15 minutes after the first model home opened its doors, according to reports.

Ivy isn’t being financed under the new program. Future parts of Woodbury East are expected to be.

Woodbury East, which is off the Santa Ana (I-5) Freeway and near Sand Canyon and Trabuco roads, is expected to hold 500 homes upon completion. The next phase of homes at Lyon’s Ivy project is expected to be released for sale soon.