



- Dominique Taylor / dtaylor@vaildaily.com



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Building 'on spec' not what it used to be

Builders, developers are still building a few homes that don't have waiting customers

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BY SCOTT N. MILLER
SMILLER@VAILDAILY.COM
VAIL, CO COLORADO

EAGLE COUNTY, Colorado — Mike Dantas had a big decision to make as the local real estate market started crumbling a couple of years ago: either keep making payments on vacant land or build something.

For Dantas, co-owner of Dantas Building Co., the decision was fairly simple — build.

“We're builders — that's what we do,” he said.

But more specifically, Dantas and his brother, Dave, are in the business of building “spec” homes — homes built without a specific buyer in mind. That business used to be a big part of the Vail Valley real estate business. Now, it may be harder than ever to build a place you intend to sell later.

What Dantas ended up building in Avon's Wildwood neighborhood is a foundation and two fairly modest homes. The foundation was sold to another builder — something spec builders don't usually do. The other two homes will sell for between \$550,000 and \$649,000. In 2007, those prices would have been much higher.

Dantas believes he's got something good, obviously.

“We believe we have the right product,” he said. “Right now, our competition is foreclosures, banks sales and duplexes.”

Dantas is putting as much value into the homes as he can. He shuns the “sustainable” label, but the homes are built with as much stucco as possible. That means less painting. The cathedral ceilings are made from beetle-killed timber, and the attics are insulated to nearly an R-100 rating.

The attention to detail in the design has put windows in places neighbors won't be able to peek in, and the nearby power lines have been blocked as effectively as possible.

But pouring value into a home means something's had to come out — in this case, profit. There simply isn't as much of that in a spec home as there used to be.

Dantas has also had to take some financial risks to get the homes built and sold but said if two of the homes are sold by Christmas, it will be a successful year.

That could happen. Dantas said he's had some interest in the homes, even before they've been listed.

But local real estate broker Kraig Forbes — founder of Forbes Sotheby's International Realty — said the pool of potential buyers is a lot smaller than it used to be.

“If you used to have 100 people, now you have 50,” Forbes said.

Part of that drop is due the trouble many people have getting financing these days, a problem that extends to

builders, too.

James Fangmeyer is the co-founder of Triumph Development, a company that started in Maryland but has moved into the local market over the past few years. That company is nearly finished with a pair of spec homes on Forest Road in Vail, priced at about \$10 million and nearly \$15 million.

Fangmeyer said Triumph – which is expanding these days – has managed to weather this financial slump with decent cash flow and little debt. In short, it's the kind of company that would be called a “well-qualified buyer” in a car commercial.

Triumph needed financing for its Forest Road projects, and Fangmeyer called the current lending market “the most difficult environment I've ever had to work in.”

Some banks are having a hard time lending at all, he said; others can lend for some projects but not others. Many lenders recoil when they hear “spec” in a proposal.

“But we made a calculated decision to proceed,” he said.

For those who do take the risks, there can still be rewards, Forbes said.

“Buyers still like new homes,” Forbes said. “The trick for sellers is to price accordingly. New units at the Ritz Carlton in Vail have sold, because they were priced right.”

Dantas believes he's taken the right approach with his project in Avon.

“These days you're not going to make money on the land, and you're going to give a lot of the labor away,” he said. “You don't make a profit like you used to, but we've tried to build what the valley doesn't have right now.”

Business Editor Scott N. Miller can be reached at 970-748-2930 or smiller@vaildaily.com.

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