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# Dallas Business Journal

## What bubble?

D-FW's heaviest-hitting housing experts on record home sales, higher land prices and tighter margins in our hyper-competitive residential market.



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## RESIDENTIAL BUILDER & DEVELOPER ROUNDTABLE

# Competition and costs squeezing margins

BY CHRISTINE PEREZ | STAFF WRITER

## PARTICIPANTS

**D**allas-Fort Worth is one of the most competitive residential real estate markets in the country.

Increasing land and material costs are putting an even tighter squeeze on margins. The *Dallas Business Journal* recently gathered together some of the area's top residential players to find out what they're doing to stay competitive and where they think the local market is headed.

Participating in the discussion were Fred Balda, Hillwood Residential; Jeff Blackard, Blackard Group; Tom Burleson, Lumbermens Investment Corp; Philip Huffines, Huffines Communities Inc.; Todd Horton, DR Horton Homes; Steve Magee, Centex Homes; Bruno Pasquinelli, Portrait Homes; and Ted Wilson, Residential Strategies Inc.

**DBJ:** *What about pricing? There's been a lot of talk nationally about a housing bubble. Is anybody seeing any signs of that here? Also, have you seen any change in the number of investors in North Texas?...*

**PHILIP HUFFINES:** A recent article by A&M Real Estate Research Center said home price relative to family income in Dallas is 25% below the national average. Fort Worth is more like 38% below the national average. What that indicates is that price appreciation is still possible in the Dallas-Fort Worth market. I don't see any bubble in this area...

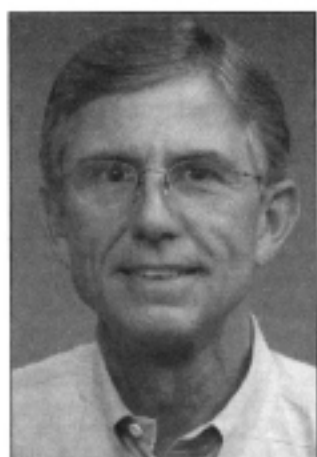
**DBJ:** *Let's talk about positions, land pricing, the*



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**challenge of finding the parcels. Where are some of the hot spots? What are you guys doing to lock some of those in?...**

**HUFFINES:** I'd like to address land prices because land prices have been escalating more than house prices. That's why the margins are getting squeezed. The difference in this cycle versus other single-family cycles is that what's really left out there are the large tracts by owners that don't have a lot of leverage, even if they are investors. For 1 and prices to fall there need to be must-sellers—people who have to sell. The market is stagnant for a while and they've got to sell and that drives the price back down. Without those must-sellers in the market land prices continue to increase. Dallas historically has one of the

lowest lot prices as a ratio to home price. In other markets it's anywhere from 25% to 60%. In Park Cities it's as much as 66% of the price of the homes. So land prices continue to escalate and, thus, home prices will continue to escalate. . . .

**DBJ:** *Let's talk a little bit more about the suburban townhomes and housing as part of the large mixed-use, town-center-type developments that are sprouting up all over. What factors are driving these trends and what's the outlook for those areas?...*

**HUFFINES:** We'd like to do that. We're not so sure that the market will accept it at this time. Especially since our projects are fairly far out on the outer ring. We love the entire concept of what you're talking about and really strive

to try to achieve that. We love the live-work units. We love the fact that you can put retail underneath residential and really create a core village. That's very important. . . .

**DBJ:** *I'd like to wrap things up by getting your outlook for the market for the rest of this year and into 2006. . . .*

**HUFFINES:** Our projections are that home starts will be about the same for '06 as '05. So we're maybe not quite as optimistic as some. The wild card is how the national economy reacts to certain housing markets that are in a bubble. That could affect the mortgage business all across the country and slow down sales, especially in the lower price points. But we're bullish enough that we're going to open up a new community next year.