June 20, 2010

St. Cloud Times

Gambling on Growth: So many lots, so few houses

Last year; almost 12,000 lots in the three-county area sat empty. Local cities and taxpayers could end up paying as growth stalls.

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If the housing market hadn't crashed, perhaps strangers wouldn't drink beer or loiter in Sue Tarr's underdeveloped south St. Cloud neighborhood.

Perhaps she wouldn't have had to call the city last summer about unmowed weeds. And perhaps the value of her home wouldn't have fallen $20,000.

But here's what gets her most: Last year her tax dollars paid for new pavement and stop signs on streets that don't go anywhere.

"Well, there go my city tax dollars, and no one ever uses those streets," Tarr said. "I thought it was a useless expense."

Her neighborhood is one of scores of Central Minnesota developments sitting half-finished or even empty after the housing bubble burst and the nation entered its worst recession in decades. At the end of 2009, almost 12,000 ready-to-build lots sat vacant in the three-county area, according to data from county assessors. And taxpayers are still paying for some of these unfinished projects.

The Times collected data on almost 60 stalled developments in St. Cloud, Sauk Rapids, Sartell, St. Augusta, St. Joseph, Kimball, Rice, Clear Lake and Avon. All have at least 10 vacant lots; some have dozens; a few, more than 100. In many developments, just a tiny fraction of the planned homes have been built. A few developments stand empty.

Minnesota developers, builders and investors have lost thousands or even millions on a gamble that the housing market would keep growing. Some have gone bankrupt or owe thousands in taxes and assessments.

Elected officials and other government leaders made the same gamble. In many cases, cities bore the cost of expanding and improving roads, sewer and water lines, treatment plants and schools, all based on growth projections that didn't materialize.

Those developments haven't generated the property tax revenue, assessment payments and user fees city officials expected. In some cases, stalled developments have burdened cities with millions of dollars of debt.

"I think it could be a very major problem for local governments in the future," said Edward Goetz, director of the Center for Urban and Regional Affairs at the University of Minnesota's Humphrey Institute of Public Affairs.

Jeff Johnson, assistant Stearns County assessor, estimates the lot surplus will take five to 10 years to absorb, depending on location and how quickly the economy recovers.

That means taxpayers like Tarr will continue to pay for maintenance, roads and street signs in neighborhoods where few people live. It means people will dwell in stark neighborhoods they thought would be bustling, and live in homes they thought would grow in value but actually declined.

And it means city leaders and business owners will keep looking for ways to recoup their losses.

Too many lots

Homebuilding has come to a virtual standstill, and the glut of building sites is dragging down land values and causing serious financial problems for developers and cities.

"There are so many lots," said Michael Couri, attorney for the cities of Avon and St. Augusta, which both have large, unfinished subdivisions. "There's much, much more than anybody thought."

In many cases, the lots are in foreclosure and owned by a bank. Banks don't want to hold onto the land, so they are looking to sell lots cheap, Couri said. He likens the situation to "a watermelon going through a snake."

"It's driving the prices down way low — much, much lower than anyone anticipated," he said.

There is real discussion about entire housing developments going into tax forfeiture, he said.

"Everyone always thought these lots had enough value," Couri said.

At one recent point, St. Cloud had 1,700 vacant lots, said John Norman, the city's finance director.

Meanwhile, the local building rate has slowed significantly. In 2004, more than 800 permits for single-family homes were issued in St. Cloud, Sauk Rapids, Sartell, Waite Park, St. Joseph and St. Augusta. But five years later, just more than 100 permits were issued.

In some cases, developers say they can't even sell lots for the amount of assessments they owe to cities that helped pay for infrastructure in new neighborhoods.

"It's almost like they'd give the lot for free if you'd build the house," Norman said. "It's not a good thing."

Even if a development has only one or two homes, the city is still responsible for snowplowing and street and utility maintenance. Those costs can be a strain for cities with tight finances exacerbated by cuts in state aid.

"Cities have been told there's going to be a lot of property tax generated from the homes being built," said Dale Powers, a former Clear Lake City Council member and a private planning consultant. "But since the homes aren't being built, they're left with really nothing."

Public policy

Earlier this decade, developers, builders, mortgage brokers, banks and real estate agents were making good money. In 2004, St. Cloud issued residential building permits for projects worth more than $53 million combined.

Cities in fast-growing areas such as St. Cloud expected the growth to continue and helped pave the way for new residential subdivisions.

As area communities planned for the future, they based their decisions on projections of strong growth from the state demographer's office and other sources, said David Drown, a financial adviser who works with several Central Minnesota cities.

"Just about everybody was telling them, 'Expect a lot of growth,' " Drown said.

It didn't happen.

In 2004, Minnesota city leaders were also trying to deal with dramatic Local Government Aid cuts made by Gov. Tim Pawlenty. That might not have been the only reason cities went into debt for developments that are now stalled. But it's one factor in their decisions, said Louis Johnston, associate professor of economics at the College of St. Benedict and St. John's University.

He's sure most local city officials acted responsibly by looking at population and income growth estimates before signing off on new public projects.

But sometimes they don't, going with their gut instead.

"We get caught up in the optimism of something, and you think, 'Wow, it's going to be great. Things are going to happen,' " Johnston said.

He said a lone skeptic might ask, "Am I stupid? Am I crazy?"

"When everyone else (goes) with their gut, it's hard to go with the numbers," he said.

Johnston said he thinks a cooling-off period should be required to allow public officials to think about a decision from all angles.

"We're all susceptible to that," he said. "And good public policy should keep us from doing that."

And in small towns, it can be difficult for city officials to deny a new subdivision even if they recognize it's premature, Powers said.

"They can't look at the guy they go to church with, (whom) they've known their whole life ... and tell him no," Powers said. "It takes a lot of strength by an elected official to tell that person no."

Into the shadows

Three years ago Ken Croat had 28 people working for him.

Now he has two.

Croat is the owner and CEO of Croat-Kerfeld Homes, which owns several subdivisions in the St. Cloud area, including Coyote Creek in St. Cloud and Avalon Village in Sartell.

During the flush years, he built 90-100 houses a year. In the past couple years he's built eight to 10 per year.

He said some of his developments are about one-third or half full. Foreclosures have made it difficult for builders to sell new homes; the prices of existing homes are so low they can't compete, Croat said.

In Stearns and Benton counties last year, sheriff's offices foreclosed on 561 properties. That's down about 7 percent from the year before, but remains up 77 percent from 2006, according to local sheriff's departments.

So Croat has done what a lot of local companies have had to do to stay open: change his work. Now he's in the business of developing apartment complexes.

He's not the only one who's changed. The Central Minnesota Builders Association has 456 members this year, down from 605 in 2005, and on par with 455 in 2002, said Bonnie Moeller, executive director of the association.

Some developers and builders have slipped into the shadows. Phones have been disconnected, bankruptcy paperwork filed. Others are still in business, some with new names.

Several Central Minnesota and Twin Cities-area developers and builders did not return calls for this story, didn't want to comment or could not be found.

In many cases, properties have changed hands so many times city officials don't even know how to contact the present owner. Some are in foreclosure or owned by a bank. Some individual lots are tax-delinquent. In a few cases, large portions of developments have gone into tax forfeiture, such as Westwood Parkway Plat 2 in west St. Cloud and Autumn Ridge in Sauk Rapids.

'The long-term'

Tom Crouch remembers a conversation with the Kimball City Council before his development, Heritage Park, was approved.

"Mr. Crouch, how long (do) you think this really active bull market will last?" he recalled a council member asking.

"It will end about the time I get lots on the market, and then it will die," Crouch joked.

"They laughed, and that's basically what happened," he said.

Crouch, president of Edina-based companies Eliason Enterprises Inc. and T.N.C. Inc., said something bothered him during that time. Building looked "too easy, too good." And too many people were in the business.

"That was not sustainable," he said.

Heritage Park in Kimball broke ground in 2006 and began selling in 2007, he said. The first of two phases in the project was supposed to hold 28 single-family lots and 13 twin-home lots. Three homes have been built and sold.

He said he paid cash for the project, so he doesn't owe anyone any money, but he isn't turning a profit, either. He's responsible for paying property taxes and maintenance, such as mowing weeds.

Crouch has been in the business 40 years. He says the lead time on projects has multiplied significantly. "By the time you get something up and running, the market may have changed," he said.

He also said developers sometimes start projects at least in part as tax shelters — the case with his own project in Kimball.

But Crouch doesn't even consider hindsight.

"If you're a developer, you're an optimist. It doesn't do any good to spend time looking back. I don't clutter my mind with those options," he said, noting that it might be his grandchildren who see the lots sell and his development completed. "I'm here for the long term."

Not an island

Residents have mixed feelings about their neighborhoods.

What keeps coming back to Nina Steil is an image from her own childhood: children ringing each other's doorbells to play. She had expected just that in the Deer Creek East neighborhood, but didn't get it.

Instead, her boys — 8, 6 and 4 — have to arrange play dates. Steil drops them off at a friend's house, or parents drive children to theirs.

"I miss that for my kids," she said, remembering the busy streets she grew up on.

But it's nice to have little traffic. And she enjoys a private area with few neighbors.

Steve Murphy lives in a neighborhood nearby. The underdevelopment is not a big deal to him. He understands the economy slowed the housing market.

Besides, he said, he has neighbors.

"It's not like we're out on an island in the middle of nowhere," he said.

Tarr likes her south St. Cloud home. She's a St. Cloud State University professor who knew the ins and outs of home ownership when she landed here in August.

She didn't have an expectation of what the neighborhood would be like when she moved in. She likes the privacy in her sparse neighborhood. But she worries about what will happen if she wants to sell her house.

And even though police occasionally drive through the neighborhood, she's concerned about the lack of street lights.

"There are ample opportunities for people to come and loiter, and they do," she said.