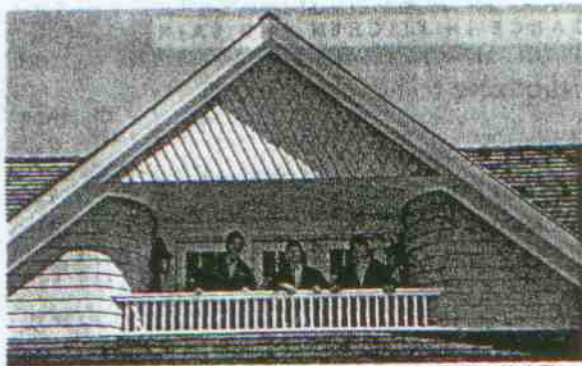


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Laurie Lambrecht for The New York Times

**GAMBLING** Matt, Kevin and Ed Mulderig, left to right, build "spec" houses hoping to attract buyers, including this \$8.95 million property in Southampton, N.Y.

## This Is the Risk That Jack Took

By MOTOKO RICH

**T**HREE years ago Troy Jarvis, a real estate agent in Scottsdale, Ariz., assembled a group of golf buddies to buy a half-acre lot on a golf course near Scottsdale for \$350,000 and build a four-bedroom house with a pool for \$1.2 million.

Last year the foursome, which also included a schoolteacher and a periodontist, sold the house for \$2.3 million. The profit was enough to encourage the group to acquire four more lots on the same golf course and six lots on another course near Park City, Utah. They intend to build houses on all the lots and sell them for \$1.9 million to \$3 million.

At a time when mass-market home-builders generally take the lower-risk approach of selling houses based on

floor plans and constructing them once they have a secure buyer who has made a deposit and signed a contract, a growing number of smaller developers are going ahead and building "spec" houses, some with price tags as high as \$34 million, without any specific buyers in mind. The idea is that they will sell the houses once they are ready (or nearly ready) for the buyer to move in. And there's plenty of interest, especially in popular vacation and retirement home markets like Arizona and Florida.

According to the National Association of Realtors, 13 percent of all homes — or 1.02 million — purchased in 2004 were vacation homes, up nearly 20 percent from 850,000 in 2003.

The risk-friendly builders and their financial backers put the money up front, hire an architect and contractors, and

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outfit a house right down to the chandeliers, wine coolers and warming ovens to attract a wealthy buyer who wants a move-in-ready residence. If the house doesn't sell, the investors are stuck with the costs.

So far that has not been much of a problem in some hot real estate markets, where local brokers and consultants say spec building is rising along with house prices.

Carmen D'Angelo, an owner of Premier Estate Properties in Boca Raton, Fla., said spec building is up about 30 percent from five years ago in his area, which includes nearby Delray Beach and Fort Lauderdale. In Alexandria, Va., Greg Leisch, the chief executive of Delta Associates, a real estate consulting firm, estimates that there are 30 new spec homes being developed in Wintergreen, Va., a ski, golf and tennis resort area in the Blue Ridge Mountains, where he said there were none four years ago.

Some of the spec developers have experience working on custom-built homes. Others are real estate brokers or general contractors who, like the dot-com entrepreneurs of the late 1990's, recruit acquaintances to help finance a project.

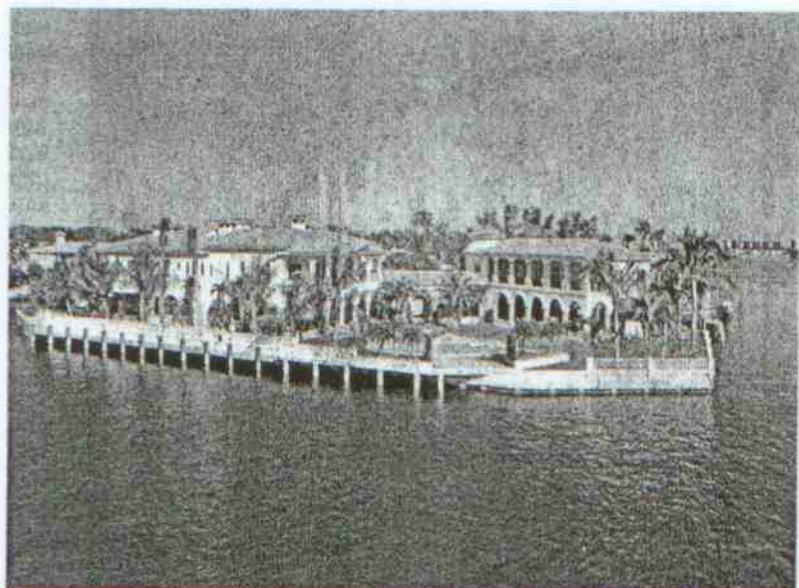
Last July, Bobby Elder, a mechanical and general contractor in Boca Raton, teamed up with a father and son who own a retail chain in Chicago to buy a \$300,000 lot on a golf course in Boca Raton. Mr. Elder is building a house on the lot that he says could fetch \$1.4 million. In another deal that closed this week, he bought a \$1.76 million lot in Boca Raton. A local golf pro co-signed a loan on the property, where Mr. Elder is building a house he hopes to sell for \$4.5 million.

Mr. Elder said he was willing to risk the investment because "the amount of customers coming into the high-end market is really staggering."

In addition to experienced developers, investors with extra cash who want to dabble in the real estate market are attracted to spec building. In the Scottsdale area, for instance, investor interest in spec building has doubled in the past three years, said Mr. Jarvis, speaking on his cellphone from the Mirabel golf course in Carefree, Ariz.

One of his partners in the Scottsdale and Park City deals is Terry Miller, a schoolteacher and basketball coach in Vista, Calif., near San

# This Is the Risk That Jack Took



**TROPHY HOMES** Spec builders draw deep-pocketed baby boomers with properties like a \$22.5 million house in Boca Raton, Fla., above left, and one in Southamptton, N.Y., above center. Steven Crandall, right, is developing homes with views in Wintergreen, Va., a resort area in the Blue Ridge mountains.

Diego.

Mr. Miller, who spent some time as a real estate agent before he became a physical education teacher, said, "I'm at the point in my life where if I lose, I'm not investing all of my savings or my retirement." But, he added, with six children, three of whom are in college, "I'm just hoping to have some fun with it, make some money, and keep moving."

"If it does go south," he explained, "that is why we have four investors

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## Spec builders in hot markets find that their gambles pay off.

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— so we can share in the carrying costs."

After selling the first house in Arizona, Mr. Miller in turn recruited Jeff and Cheri Harris, the parents of a former student and construction consultants who have previously built spec homes in California. The Harris decided to invest outside California because land values there had become too high. With all the properties in Arizona and Utah close to golf courses, Mr. Harris said, the

investors figure the homes will attract wealthy second-home buyers.

Some economists say the increase reflects confidence in a housing market where real estate prices continue to rise in many regions. But they caution that the spec building trend could lead to price declines if there is even a slight economic blip.

"These guys typically can't carry these houses for very long, especially these small builders, and then you can get into a fire-sale type situation," said Thomas Lys, professor of real estate at the Kellogg School of Management at Northwestern University.

Still, with deep-pocketed baby boomers looking for a place to vacation or retire, developers are ready to take the risk.

"That's one of the wealthiest generations ever to come into their own in the history of this country," said Steven Crandall, president of Tectonics II, a developer in Wintergreen. "We're hearing from a lot of clients who are despairing because they can't find nice property." After a 10-year hiatus Mr. Crandall began building three spec homes again a year and a half ago and wants to sell them for \$1 million each.

In another sign of confidence, some spec developers are aiming for the extreme high end. In Palm Beach, Fla., Dan Swanson, president of Addison Development, who has

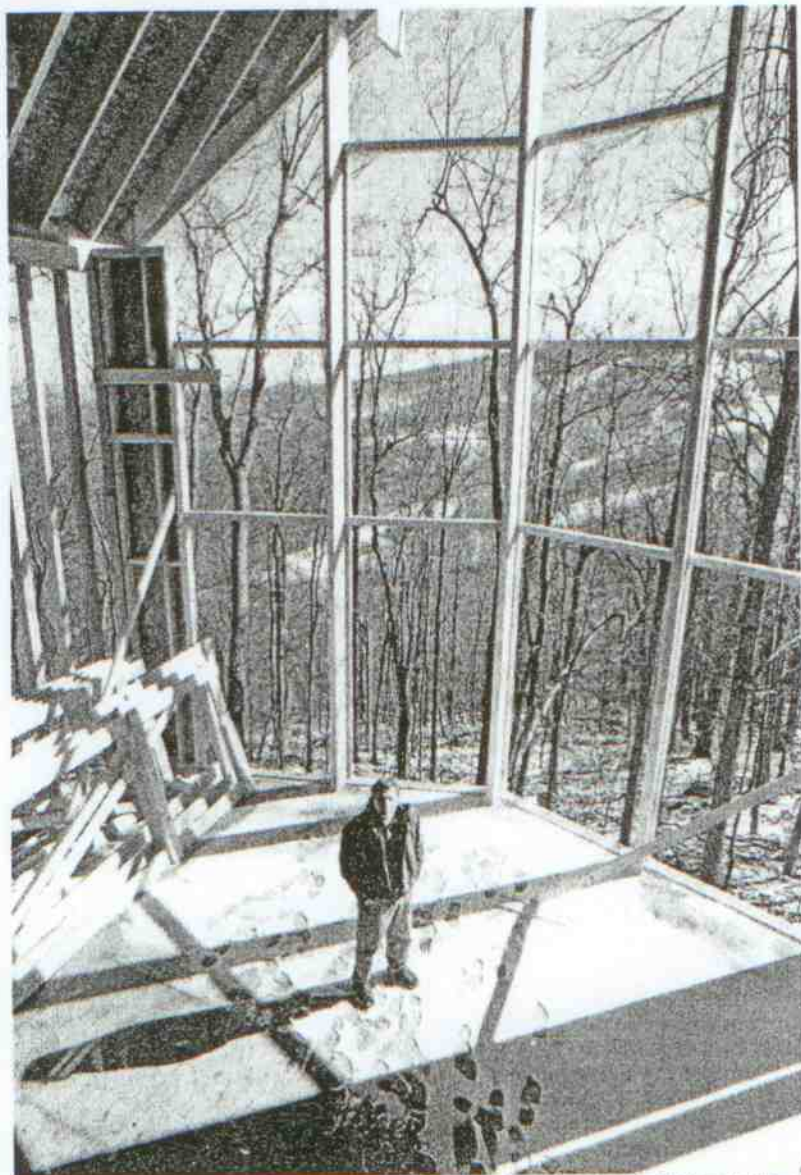
been building spec houses for 27 years, last month closed on the sale of a \$33.6 million Mediterranean-style mansion with 9 bedrooms and 10 bathrooms. The almost-34,000-square-foot house, which Mr. Swanson said was the most expensive spec residence ever sold in Palm Beach, comes with an elevator, four fireplaces and a six-car garage.

Although the property took more than two years to build, Mr. Swanson said his profit — which he declined to disclose — justified the risk. Among his other spec trophy houses are a \$22.5 million, 24,000 square foot house in Boca Raton and one in Palm Beach, still under construction, which is already on the market for \$33.5 million.

"A lot of people think we're crazy at these numbers," Mr. Swanson said. He added confidently, "We've been doing this for a long time."

For many buyers who want a new home, a ready-made spec house with all the fittings eliminates the hassles of micromanaging the choice of a shower head or a kitchen backsplash. Such buyers "are willing to pay these healthy prices to have it headache-free," said Gregory Weadock, a managing partner at Barclays International real estate in Palm Beach.

Jennifer Linick, an agent at Devlin McNiff, a Hamptons brokerage firm, said she recently sold a \$4 million spec home under construction to a



Above left, Corey Weiner / Red Square Photo; above center, Laurie Lambrecht for The New York Times; above, Dan Petersen for The New York Times

couple who had seen the builder's previous work. She said that the buyers told the builders, "You pick everything."

For that reason developers often prefer to build on spec because they don't want to deal with a client's demands or indecision. "There are many people who don't really know what they want and the building process is very difficult for them," said Anthony Nicolli, president of A. M. Nicolli Construction Inc., in Boca Raton. Last year Mr. Nicolli built three spec homes in Delray Beach and is currently marketing another at \$8 million.

He said there is also opportunity for greater profits, but acknowledged that spec building is a gamble. He added, "You hope that you are making the right decisions."

To attract the kind of people who want to live in the Hamptons, Kevin Mulderrig, a builder in Southampton,

N.Y., put "top-of-the-line everything" into the spec house he and his two brothers, Ed and Matt, just built, including an elevator and 10 bathrooms.

The 7,200-square-foot, six-bedroom house in Southampton is on the market for \$8.95 million.

Even if the market cools, the Mulderrig brothers and other spec builders should still be able to break even, said Diane Saatchi, a broker with Corcoran Group who is marketing the Mulderrigs' property.

"I'm just guessing on this, but if they're into the project for \$6 million and it's now priced at close to \$9 million and they had to sell really quickly, could they sell at \$6 million?" Ms. Saatchi wondered. "A lot of people will see they got a \$9 million house for \$6 million and the timing was great for them. If the market tanks, the people who have \$200 million will be around to bounce."