

REAL ESTATE

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The Cape is Back

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Don and Ginny Koogler recently sold the \$2.3 million model home they started building in Cape Coral before it was completed.

REVIEW SUMMARY

Industry. Residential construction

Trend. Hard hit areas such as Cape Coral are seeing a residential building resurgence.

Key. Labor costs could jump if there's a meaningful rebound in construction.

The priciest home in this year's Lee County parade of homes is located in the area that epitomized the real estate bust: Cape Coral.

The fact that homebuilding activity is picking up in one of the country's bleakest areas for foreclosures is one indicator that the state's economic recovery is well under way.

Cape Coral is Florida's second-largest city by landmass, measuring 120 square miles and connected by three bridges to Fort Myers. The city's 133,000 platted lots cover an area four times bigger than Miami, and its 400 miles of saltwater and freshwater canals helped drive real estate sales to a frenzy of speculation during the boom and the spectacular collapse that followed.

But Cape Coral remains fertile ground for future homebuilding, and entrepreneurs are eager to start again at the first sign of optimism. Barely half the city's lots have been built upon so far in its 50-year history. Its population is 154,000, less than half the 400,000 it could accommodate.

The Lee Building Industry Association parade of homes, an annual industry event during which builders open model homes to the public for three weeks, has 42 homes this year, a 31% increase from last year. Of that total, 13 models are located in Cape Coral, more than double the five that were in the parade last year and one more than the dozen homes in the entire county's parade just two years ago.

What's more, entrepreneurs built many of Lee's new model homes this year, not large national homebuilding companies. "Now all the monkeys are copying me," laughs Bob Knight, co-owner of Paul Homes, who was one of the few local builders prescient enough to open a model home in Cape Coral two years ago when he sensed the market turning.

The most expensive home in the parade this year is the one built by entrepreneurs Don and Ginny Koogler on a waterfront lot in Cape Coral. The \$2.3 million, 7,500-square-foot home built on speculation was sold before it was completed. Already, 1,500 people have toured the home in the first weekend it was opened to the parade.

In another sign of confidence in the market, Scottsdale, Ariz.-based Taylor Morrison acquired the remaining 577 home sites at Sandoval, one of the few master-planned residential communities in

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Cape Coral. While the terms of the deal weren't disclosed, the community accounted for more than 40% of the residential permits in Cape Coral last year.

Even the Cape Coral Construction Industry Association, whose ranks were cut in half during the downturn, recently hired a new-membership director. Executive Director Heather Mazurkiewicz says she hopes to grow the trade group's membership roster by 10% to 20% this year.

To be sure, homebuilding hasn't yet surged to boom-time levels. In fiscal 2005 ending in October, Cape Coral issued 7,694 permits for the construction of single-family homes. So far this fiscal year, the city has issued 85 permits.

But builders say they're anticipating a surge in demand that will likely overwhelm the short supply of new homes available today. Foreclosures of well-located newer homes have run their course, they say. "We're busier now than we've been in the last four years," says Brian Gomer, vice president with Premier Cape Construction.

Location and amenities

At this point in the homebuilding recovery, builders are focused on certain locations where there is limited supply: waterfront lots with access to the Caloosahatchee River and the Gulf of Mexico. "That's where the demand is," says Gomer.

For example, the southwest area of Cape Coral, south of Cape Coral Parkway, has few homes for sale that were built in the last five years, says Gomer. "The number of foreclosures has dropped dramatically," he adds. "Those opportunities don't exist anymore."

What's more, the Cape Coral market remains relatively less expensive than many other areas. Koogler points to a waterfront lot next to his model home that is listed for \$600,000, half what it would have cost in 2006. But similar lots this close to the Gulf of Mexico sell for \$4 million in Naples, he says.

Other areas of the city are doing better, too. For example, the gated community of Sandoval has been drawing new-home buyers through the downturn. The master-planned community is unique because a sea of scattered lots surrounds it and it would be difficult for any developer to assemble 500 acres to create a competing gated development. "If you were trying to duplicate Sandoval, it would take you a couple of years," says Steve Kempton, Taylor Morrison's president for West Florida.

Taylor Morrison, which was one of the original builders at Sandoval six years ago, acquired the remaining 577 lots there from developer Bonita Bay Group. In a sign of improvement, Taylor Morrison raised the price of its lowest-price home by 5% last year. So far this year through January, builders have sold 25 homes at Sandoval. Last year they sold a total 116 homes.

Most of the buyers now are older people whose children have left or those who have recently retired, says Kempton. "Family buyers haven't been as prevalent because of the job market," he says.

Kempton says that the city has done a good job widening roads, adding sewer systems and building new schools. A new hospital for military veterans is scheduled to open later this year, he notes. "They've done a terrific job taking that city to the next level," he says.

Ich liebe Cape Coral

At least half of the buyers of new homes in Cape Coral are foreigners, say builders.

Germans have been big buyers in particular, bolstered by a favorable exchange rate and an already large presence of their fellow countrymen. The German American Social Club of Cape Coral draws more than 30,000 people for its Oktoberfest festival to its 25-acre campus. "They've been more positive on our market than local or North American buyers," says Gomer.

Knight says Germans are buying homes and renting to their fellow countrymen when they're not here. And Koogler notes that some Europeans are confident enough that they expect to sell these homes at a profit in two to three years. Unable to find high-yield investments, they're investing in Southwest Florida real estate in search of higher returns, he says.

Besides Germans, builders have also seen an influx of Canadians in recent years. A favorable exchange rate also helps these buyers and low prices relative to a few years ago have been a draw. "The Canadians have found Cape Coral," says Koogler.

Meanwhile, U.S. buyers have been more cautious. Part of it may be the fact that bank credit remains tight, particularly for "jumbo" loans of more than \$417,000. "A lot of clients said if they could get loans, they would build," says Koogler.

Still, judging by the foot traffic in the model homes during the parade, builders are optimistic that U.S. buyers will increase spending. "I think it's consumer confidence," says Koogler. "As long as the stock market can stay steady," he adds. Koogler says he's expecting \$100 million in sales of luxury homes this year, more than triple the \$29 million in sales in 2011.

Gomer says recent articles in national newspapers and magazines have noted Cape Coral's affordability. "People are starting to pay attention," he says. "For so long Cape Coral was the poster child for bad news."

Knight says he tracks model traffic by groups of people, rather than individuals. Last year, about 100 groups toured the model home during the parade. This year, Knight says the first weekend saw 165 groups. "They were chatting with the salespeople and having good conversations," he notes.

Spec is back

Builders are so confident they can find buyers that they're building speculatively. "We have a couple of inventory homes we are building on our own properties," says Gomer. "That shows our confidence in the market."

While construction loans are available for the most credit-worthy homebuyers, banks aren't lending for speculative homebuilding. That's likely to keep the supply in check and be especially lucrative for builders with the financial strength to do that.

Besides lower land prices, the cost of labor remains low relative to the boom times. But builders caution that a stronger-than-expected rebound could cause labor costs to spike.

Fact is, many subcontractors ranging from electricians to plumbers left the market during the bust because there was little work, as evidenced by the decline in the membership of the local construction industry association. "Now we're making sure we've got people if growth comes back," says Knight. "Right now the trades are keeping up, but if it comes quicker we've got to watch out. That could snuff the whole thing out."