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PROPERTY REPORT

The Land of a Thousand Teardowns

Developers knock down old houses to build big new ones in Northern Virginia's booming market

By Theresa Agovino

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Roughly 60% of home builder Rob Fisher's business in Northern Virginia comes from teardowns he purchases. Above, a home listed by Fisher Custom Homes in McLean, Va. PHOTO: BTW IMAGES

Seven years ago, Rob Fisher realized there was a huge disconnect between what home buyers were looking for in Northern Virginia and what was available.

Single-story brick homes with 2,000 square feet or less that were more than 50 years old were relatively plentiful. The two-story modern residences with more than 3,500 square feet that young families desired were in short supply.

"A lot of the homes have outlived their usefulness," said Mr. Fisher, founder of Fisher Custom Homes, which specializes in razing older houses and replacing them with new dwellings. "My current buyer wants to live in a convenient area but they have greater affluence and want bigger, more state-of-the-art homes."

The teardown business in Northern Virginia is booming. Areas like McLean, Arlington and Vienna are highly coveted because of their proximity to Washington, D.C., but a dearth of vacant lots had stifled new construction.

Over the past few years, the land beneath older homes has become more valuable than the houses themselves. Builders said it is easier, and not much more expensive, to build a new house than to renovate and expand an outdated one.

“Northern Virginia is a pretty hot area for teardowns,” said Robert Dietz, the chief economist for the National Association of Home Builders, a Washington-based trade group. “There are already established, nice neighborhoods with nice schools, so there’s incentive to replace homes.”

Last year, teardowns represented almost 8% of single family housing starts, or about 55,000 homes, in the U.S., according to the NAHB. Mr. Dietz said the association doesn’t have historical data but that his conversations with builders suggest the numbers are growing, especially in long-established suburbs with older housing stock around cities such as New York, Boston and Washington.

In all, there were 8,000 teardowns in the Northeast region last year, only 100 less than in the much larger Midwest and 2,600 less than in the even larger Western region of the country. That is mainly because of the vast difference in the age of the housing stock. New York state has the oldest housing stock with a median age of 59 years, while Massachusetts is second oldest at 56 years, according to the 2015 American Community Survey by the U.S. Census Bureau. Nevada has the youngest housing stock, with a median age of 21. Virginia is in the middle at 34 years.



The inside of a home listed by Fisher Custom Homes in Vienna, Va. PHOTO: BTW IMAGES

Teardowns in Northern Virginia accelerated after the recession, builders said. That has drawn more competitors to the market and pushed up housing prices, making it tougher to turn a profit. Builders said the number of companies in the teardown segment has grown from a handful to anywhere between 30 and 40.

“We often find ourselves in bidding wars,” said Rob Cappellini, president and founder of Evergreene Homes, a subsidiary of his larger construction firm, Evergreene Cos.

Mr. Cappellini said that having to pay higher prices for the homes has cut into profit margins. He said the company earns higher margins building planned communities but has no plans to abandon the teardown business.

“It’s a steady stream of income and there is demand,” Mr. Cappellini said. He added that the company completed 28 teardowns this year, up from 21 in 2015 and 16 in 2014. This year, teardowns accounted for about 15% of the company’s revenue, a figure he estimates will grow to 20% in 2017.

Likewise, Mr. Fisher of Fisher Custom Homes said he is adjusting his operations to cope with the more competitive market. He rarely buys homes in McLean anymore because the costs have become prohibitively expensive, with a teardown costing as much as \$1 million, he said. Most of his work is done in Vienna, where he says it is still possible to purchase a home for between \$550,000 and \$750,000, raze it and build another that will sell for \$1.3 million to \$2 million.

Roughly 60% of Mr. Fisher’s business comes from teardowns he purchases while the remainder stems from people who have bought properties they wanted razed, he said. Right now, he is finishing two homes and is slated to start three more in the spring. He is still looking around but is being very selective as the market grows more competitive.

“I’m pretty conservative,” he said.

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