

## **Teardown-rebuild fever hits central Phoenix**

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Opportunistic investors and do-it-yourselfers are scouring central Phoenix neighborhoods for old houses they can tear down, clearing the way for tricked-out, million-dollar homes.

The teardown trend took off in the late '90s in places like Paradise Valley and the Arcadia section of Phoenix. Driven by a shortage of land for new houses in desirable neighborhoods, home buyers and builders began buying old houses on large lots, flattening them and building new.

Now, people involved in the game have turned their attention to neighborhoods that are closer to downtown Phoenix and to smaller houses passed over in the initial teardown wave.

They say the new hot areas are the Central Avenue corridor and neighborhoods flanking the Biltmore area of Phoenix as buyers demand spots closer to downtown jobs, schools and leisure attractions. Smaller houses in Paradise Valley and Arcadia are also being targeted.

Coldwell Banker agent Kathy Ostermeyer said she has dealt with several clients who moved to north Scottsdale so they could live in a bigger house with modern amenities – large kitchens, walk-in closets, home theaters. She said many of them became disenchanted in a couple of years because they spent so much time driving to downtown offices or shuttling kids to private schools like Brophy, St. Mary's or Phoenix Country Day.

### **Time too valuable**

"They spent all of their social time in their cars." She said. "They're realizing they can still have what they want in town. Just tear it down and start over."

Bobby Lieb of Realty Executives said that although housing values are taking off in central Phoenix, the area still looks attractive for teardowns. He said prices still look cheap compared with prices in Paradise Valley and Arcadia.

"You still get a good bang for your buck," he said.

Teardowns are another aspect of a metropolitan Phoenix housing industry that is largely driven by land – its price and location.

A teardown happens when someone decides that the land a house is sitting on is more valuable than the house itself.

### **Complicated projects**

Investors and contractors dominate today's teardown action.

They say it's difficult for an individual home buyer to handle all of the aspects of acquiring and demolishing a house and setting up the design and construction of a new one.

"For most people, it's just not worth the grief unless they're familiar with the building industry," said John Sebald, owner of Santorini Homes in Phoenix. Sebald figures he has been involved with about 35 teardowns in his time working for a builder and running his own company. All the projects were in Paradise Valley and Arcadia, but Sebald recently launched his first central Phoenix teardown, an old ranch house on North Central Avenue.

## **Made to order**

Sebald said he often builds speculative jobs before lining up customers. But in this particular case, the buyers are professionals who work downtown, want to live close to their jobs and want everything a new house can offer.

Sebald is replacing a four-bedroom, 3,000-square-foot house that had 8-foot-high ceilings with a contemporary ranch of about 4,200 square feet with five bedrooms, travertine floors and crown moldings along its 10-foot-high ceilings. Other features: a playroom, den and an updated kitchen with granite counters.

## **High-end transactions**

The buyers didn't want publicity, so Sebald wouldn't discuss financials of the deal. But he said in Paradise Valley he typically pays around \$750,000 for a house, spends about \$20,000 for the demolition and builds a new house that's priced at about \$2 million.

The price includes the cost of the construction of the house and installation of the pricey touches that high-end buyers demand: wine rooms, gourmet kitchens, fancy flooring. New houses also can offer less-visible amenities, such as a modern wiring system that can support dual heat pumps and provide extra connections for a home office.

Sebald's Central Avenue teardown is on an acre lot. An acre runs 43,560 square feet and Sebald said he wouldn't build on anything less than 35,000 square feet. Yet as land values escalate, he said, he has seen teardowns on lots as small as 20,000 square feet.

"it's supply and demand," he said. "They are not making any more lots in these areas."

## **'You have to act fast'**

Sebald expects more central Phoenix neighborhoods to come into play for teardowns. He said that competition to buy old houses already is fierce in prime teardown neighborhoods and that deals are harder to find.

“There are builders lined up to buy them,” he said. “They (sellers) don’t go to a broker. They call me. You have to act fast. They sell quickly.”

Norm Kitzmiller, a real estate consultant who specializes in north Scottsdale, expects the trend to hit that area as available land evaporates. Some of the area’s communities already are old enough that home buyers are undertaking major remodeling or expansion projects.

“Those homes are getting a little bit older. But the locations and views are tremendous,” he said.

## **Slice of Paradise Valley**

Julie Bieganski, a First USA agent who has watched the teardown scene in Paradise Valley, said investors are snapping up 1,800- to 1,900-square-foot houses on lots that are less than an acre in size.

When the craze was new, she said, the targets were more often 2,500- to 3,500-square-foot houses on lots that were maybe 1.5 acres.

“Now they’re not cherry-picking so much,” she said. “They’re tripping over themselves trying to find anything in Paradise Valley. I don’t see it stopping, even if interest rates go up. It won’t matter. People who buy in this area have money. It doesn’t pay not to do this in Paradise Valley. Look at what they’re worth when they’re done.”