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Centex–Pulte deal: Sign of the bottom, or of things to come?

by Dan Meisler | Michigan Business Review

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Consolidations in a struggling industry like housing are not particularly surprising, but the \$3.1 billion purchase of Centex Corp. by Bloomfield Hills–based Pulte Homes is dramatic considering they've competed against each other for years.

Analysts have different takes on the deal, with one saying it indicates that Pulte believes land prices have hit bottom. Others, including Pulte President and CEO Richard Dugas, think there's more contraction to come in the industry.

Pulte CFO Roger Cregg said in a conference call today that one of the strengths of the combined companies is that it will own 50,000 finished lots that can generate immediate cash flow. Officials also said the geographic diversity of the two companies' land holdings complement each other, with Centex having land in the Carolinas and Texas, areas where Pulte had limited presence.

The mix of housing types for the combined company also will improve, officials said, with Dallas–based Centex bringing more homes geared toward first–time and move–up buyers and Pulte heavily invested in the Del Webb brand for "active adults."

In the conference call, however, analysts questioned the ultimate returns on the owned and finished lots. Dugas said the land being acquired is "well–positioned lots in markets complementary to our company."

He also said Pulte wanted to move quickly in order to select the right company to acquire.

"As the industry prepares for more further consolidation, we believe acting first gives us an advantage," Dugas said.

Eric Landry, an analyst with Morningstar Inc., wrote in a research note that Pulte "may also be, in effect, calling a bottom in land prices" with the purchase. He also described the \$3.1 million price tag for the transaction "a pretty good deal" for Pulte.

Russell Long, a director at O'Keefe & Associates in Bloomfield Hills, said the transaction was a bid for survival on the part of Centex.

"Centex was obviously in trouble and had enough cash on hand and assets to make it worth while," he said.

"I don't believe it will have a substantial impact on Michigan because Centex essentially pulled out (of the state) last year and Pulte is reducing inventory like anyone else," Long added.

When asked whether the industry would see more consolidations, Long said, "More closings."

"Pulte and Centex being two of the largest, the smaller local builders are all but disappearing," he said.

New housing starts saw a slight month-to-month uptick in February, but the annualized rate for housing starts that month was 587,000, a decline of 47 percent from February 2008, according to the U.S. Census Bureau.

The merged company will continue under the name Pulte with its headquarters in Bloomfield Hills and a continued presence in Dallas, but there will be cuts.

"Headcount reduction will be a part of the process," Dugas said.

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