

Anxious home builders pile on incentives

NEW YORK – Aug. 10, 2007 – With the housing market looking increasingly frail, home builders and real estate agents are going to new extremes to attract buyers, dangling lavish incentives and slashing prices.

In Boca Raton, Fla., Gordon Homes is offering to pay two years of property taxes and insurance – worth as much as \$150,000 on houses priced as high as \$2.5 million – for buyers of completed homes at its upscale Azura development. In Richmond, Va., Orleans Homebuilders Inc. is offering “Sizzling Summer Sale Savings” that include as much as \$100,000 off the cost of upgrades ranging from granite countertops to a conservatory. And in Medford, Ore., seller Diane Adams, a real estate agent, is offering to pay four months of mortgage payments on the \$975,000 house she and her home-builder husband constructed on 20 acres near Crater Lake.

“I’d also negotiate a lower price, too,” says Ms. Adams, an agent with Re/Max International Inc. “I just want this house off our books.”

Across the country, the theme is the same: Home builders and home sellers are juicing their efforts to unload single-family homes. Among other things, they are offering buyers cash discounts of as much as 20 percent, throwing in a pool and agreeing to finish basements, garages and other spaces at a cost of several thousand dollars – incentives much richer than builders were offering as recently as six months ago, when the downturn didn’t look as bleak.

Since then, home builders have been hit hard as rising mortgage delinquency rates have made lenders much more reluctant to issue new loans, causing home prices to fall and inventories of unsold homes to rise. In June, new-home sales had fallen more than 40 percent from their peak two years ago, and more than half a million new houses – nearly eight months of supply – sit in inventory, according to the most recent report from the National Association of Home Builders. Contract cancellations, meanwhile, have hit nearly 30 percent for some builders.

Things may not get better for a while. The National Association of Realtors said Wednesday that new home sales this year were likely to fall 19 percent from last year, worse than its previous forecast of a 17.7 percent drop.

Many builders never expected the housing market to fall this far. Now they’re struggling with empty land, too few buyers and an inventory of finished homes that have been sitting empty for months – and some are growing desperate to free the cash locked up in their real estate by enticing the dwindling number of buyers. The latest survey taken by the National Association of Home Builders indicates that 56 percent of builders are now offering incentives, up from about 45 percent a year ago.

And those incentives are growing bigger. In California’s San Diego County, Chris Heller, a real estate agent with Keller Williams Realty, says that until about 18 months ago, builders had little reason to offer incentives. Today, he says, “buyers are asking for the moon, and they’re often getting it.”

Mr. Heller says that on houses in the \$700,000 range, his clients are typically scoring multiple concessions totaling as much as \$80,000. Generally, that includes a price reduction, an agreement to pay closing costs or upgraded flooring or appliances – or a combination of all three.

Builders in the greater Dallas-Fort Worth area have also been struggling to move homes and are using incentives more freely. “They are giving stuff away here,” says Kenneth Cox, a real-estate agent with DFW Urban Realty in Dallas.

In suburban Dallas, incentives on single-family homes abound, including price reductions of as much as 20 percent and free swimming pools. Steve Wall, president of builder Wall Homes Inc., says his company is knocking as much as 18 percent off the list price for inventory homes in the city’s northeast suburbs. For other homes yet to be built, the builder is offering free blinds, a free covered patio and 50 percent off upgrades, up to \$20,000. “It’s more competitive than this time last year,” Mr. Wall says.

This trend toward more-generous incentives is “likely to intensify,” says Mark Zandi, chief economist at Moody’s Economy.com, citing a growing inventory of new homes, an oversupply of pre-owned homes on the market and “a glut of homes that are a year or two old that investors bought as rental property that have never been lived in, and those investors are now trying to sell, too.”

Incentives alone often aren’t enough to close a sale, however. National builder KB Home says that in May, it was offering to pay \$5,000 toward closing costs on already completed, or “inventory,” homes, up from \$1,000 about a year ago, “but we find that these kinds of incentives don’t generally work that well,” says a spokeswoman. Rowena Emmett, an independent Realtor in La Canada, Calif., says that during Southern California’s last downturn, a client offered home buyers a new Porsche, “but that didn’t work.”

Builders generally try to avoid outright price markdowns, in part because it angers prior home buyers who don’t want prices in their subdivisions forced down. These days, though, builders increasingly resort to price cuts

“because it’s all about avoiding bankruptcy for some,” says Gene Rivers, a Keller Williams agent in Tallahassee, Fla., where builders are offering incentives and price markdowns of as much as 15 percent of the purchase price on \$300,000 and \$400,000 houses, double the level of a year ago.

Certainly, not every market is struggling. Dianna Kokoszka, a vice president at Austin, Texas-based Keller Williams Realty, says homes in hot markets such as Austin still receive multiple offers, making incentives unnecessary. In other markets, pockets of strength may still exist, particularly in popular neighborhoods. Jim Napier, president of Napier Realtors ERA, in Richmond, Va., says an agent last week listed a house for \$600,000 in a desirable subdivision, “and it sold in two days at the list price, all cash.”

Still, in much of the country, it’s a buyer’s market. And the savviest buyers are using that to their advantage.

Lummie Jones, a vice president at Napier Realtors, says the best deals go to those who buy inventory homes, can close within 30 days and who have no contingencies in their contracts, such as the need to sell another house or find financing. Those buyers, Ms. Jones says, “are getting concessions of between 5 percent and 10 percent” of the house price.

Also, have a preapproval letter in hand, which indicates that a lender is ready to fund your mortgage immediately up to a certain amount, “and tell them to show you the two or three best deals they have,” says Mr. Rivers, the Tallahassee agent. Certain houses – even identical ones – can have different carrying costs because one needed a special foundation or took longer to build. “That’s the house the builder wants off his books first,” Mr. Rivers says.

Orleans Homebuilders, based in Bensalem, Pa., for instance, has knocked nearly \$200,000 off the price of some already built million-dollar homes in Richmond, Va., and is offering an additional \$20,000 reduction for buyers who buy inventory homes before Labor Day.

For buyers short on cash, builders are offering as much as \$10,000 to help cover costs, which can help buyers qualify financially for the home.

In markets such as Denver and Seattle, builders are increasingly willing to pay agents substantially larger commissions to help unload inventory homes. In turn, some agents are returning some of that money to builders to lower the home price to help buyers qualify for the house.

“Don’t be afraid to negotiate for as much as you can these days,” says Judy King, a Seattle-area Re/Max agent. “There’s a lot of flexibility in a market like this.”



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