

Builders offer cuts of as much as \$150,000 on some housing units

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Developers have moved beyond free stainless steel appliances and granite countertops to lure buyers and are now offering something less trendy but perhaps more welcome - deep discounts.

The credit crunch has shrunk the pool of potential buyers in a market that was already struggling with excess inventory and developers are pushing to clear their books by the end of the year. That has sent new home prices in the Bay Area down by as much as 20 percent from their highs two years ago, according to Joseph Perkins, chief executive of the Home Builders Association of Northern California.

Sales at condominium projects in the region's urban cores such as San Francisco and San Jose are still moving, albeit more slowly, but developers in the Bay Area's far suburbs say they're struggling to close deals.

And that has led builders - from national publicly traded companies to smaller regional players - to dangle price cuts of as much as \$150,000 on some projects in the far reaches of the Bay Area.

"There is a massive amount of inventory sitting out there that is not being sold, particularly out in the East Bay," said Christopher Thornberg, a principal at the consulting firm Beacon Economics. "You're talking total meltdown."

The median price of a new home in the Bay Area's nine counties was \$610,000 in September,

according to DataQuick Information Systems. That's a 6.6 percent increase from \$572,500 in 2006, but it's still below the high of \$641,750 in 2005.

The number of new homes sold in the Bay Area fell 17.8 percent to 999 in September and is down 42 percent from its 2005 high, according to DataQuick.

Home builders say they don't expect a quick turn around, but they do think the market has just about bottomed.

"It is a very tough market at the moment - virtually every indicator shows that the housing market is in a deep recession," said Perkins. "I see next year as transition year. If we haven't bottomed out, we will bottom out some time in the first two quarters of next year."

By the middle of 2009, home price appreciation will return to historic levels of 6 to 8 percent a year, Perkins said.

But some economists said that new-home prices still have a long way to fall. Prices rose much faster than incomes during the first half of the decade and that has put houses - particularly those in new communities that cater to first-time buyers - way out of reach, Thornberg said.

"The prices that are being charged are still so far out of whack," Thornberg said. "That works when you have crazy credit available, but what's going on right now is quite the contrary."

Developers are using a variety of tools - from two-day fire sales to offering to pick up mortgage payments - to reel in buyers.

Shea Homes Inc., of Walnut in Los Angeles County, has 20 projects in its Northern California division spread through the Bay Area and beyond.

The company began advertising an end-of-the-year sale in September with Bay Area homes marked down, in some cases by as much as \$150,000.

The promotion was set to end Oct. 31, but probably will continue for the next few weeks for buyers who are able to commit to a closing before the new year, said Ashley Cook, marketing manager for the company's Northern California group.

Shea has listed markdowns on at least 23 Oakley homes on its Web site. A five-bedroom house in Shea's Summer Lake community in Oakley, for example, is being offered for \$657,581, an 18.6 percent discount from its nearly \$800,000 price before the sale began in September.

"It's that time of year where we are trying to get some sales and closing for end of year so that we can go into 2008 with less inventory and fewer homes on the books," Cook said.

Outside the Bay Area, the cuts are even steeper. Shea is offering as much as \$200,000 off homes at a project in West Sacramento.

Yet it is the discounts themselves that are making some would-be buyers nervous.

Some are reluctant to commit because they are afraid that after they close, prices could continue to fall, Cook said.

"Obviously, one of the concerns about buying right now is what if prices do continue to go down," she said. "Most builders handle that on a case-by-case basis."

People who commit to a home early - and may wind up paying a higher price - also have more choices, Cook said.

"Someone who buys in from the ground up can choose all their options, but they may not have gotten as big an incentive as someone who buys a finished home," she said. "So maybe that buyer doesn't have the ideal cabinets, but for this price, they are willing to make some trade-offs."

A sale the last weekend in October helped AGI Capital, a San Francisco real estate development company, shrink inventory at three projects in Hayward. By running ads in movie theaters, on the radio and in newspapers, AGI sold 35 percent of the remaining inventory at the three projects, said Alexis Wong, the company's chief executive.

The projects - which include 146 condos and townhouses - are now about 70 percent sold. The advertising campaign began the middle of October, targeting the last weekend of the month for the \$100,000, two-day-only "you snooze, you lose" sale.

During the promotion, prices started at \$265,000 and topped out at about \$500,000, Wong said.

"We felt that if we were going to do a sale, we wanted it to be meaningful, we didn't want to just throw in small incentives," she said. "We wanted to have an impactful campaign and decided to put out the real incentive and it turned out to be successful."

Still, Wong said that the Hayward market is far from the region's most challenging.

"It's definitely not as dire as some of the more second-tier places in eastern Contra Costa county,"

she said. "There is still activity there because Hayward is still a transit hub between the South (Bay) and East Bay."

The company's projects in Antioch and El Sobrante are proving an even bigger challenge, Wong said.

"I don't think anyone expected the market to look like this when we started," she said. "The state of affairs caught us by surprise."

Developers said that the already-depressed new-home market took a turn for the worse in the middle of the year when the subprime loan crisis led to a sudden tightening in the mortgage market.

"Prior to June, you didn't need much of a down payment," said Steve Kalmbach, president of Pulte Homes Inc.'s Bay Area division. "Now it's gone too far the other way."

Pulte, the publicly traded developer from Bloomfield Hills, Mich., has 15 Bay Area projects. The developer is offering a variety of incentives designed to combat the difficulties in the credit market.

For example, Pulte is covering closing costs and buying down interest rates to help buyers who otherwise wouldn't qualify for loans, he said.

And as part of a Halloween promotion, Pulte offered to pay buyers' mortgages for the first 12 months in some projects, Kalmbach said.

Some developers also said that they are paying commissions to real estate agents who bring in buyers.

"We're reaching out to the real estate broker community and offering them good commissions and incentives," said Shea's Cook. "Right now, we're running a 5 percent broker's co-op. They get all 5 percent. Normally, the 6 percent commission is split between a buyer's and a seller's agent. This is 5 percent all to the buyer's agent."

Developers are forced to take such radical steps because unlike individual homeowners, who can often postpone their moves indefinitely, builders can't sit on inventory.

"Nothing will bankrupt a developer faster than carrying a lot of inventory," said Thornberg, the economist. "They are more flexible in some senses, but they also have fewer options."

Perkins, president of the Home Builders Association, said that this downturn in the new-home market is as bad as anything that members of his group have seen over the last 50 years.

"This is not a soft landing we've had," he said. "This is a hard landing."

That means developers have to do what it takes to get homes sold, even if it isn't pretty.

"They've got to get that standing inventory off the books," Perkins said. "Lenders want to see it off the books and, for public companies, investors and Wall Street, want to see it off the books. That pressure is the reason you see those full-page ads offering all sorts of incentives."

Still, developers, point to the Bay Area's perpetual housing shortage and strong job growth as reasons to remain optimistic that a recovery will come sooner rather than later.

"In real estate, you always have cycles," said AGI's Wong. "The market will come back. People are stepping up to the plate and buying and the fact is that prices are pretty much as low as they can get. Between now and the spring, I think we'll see a lot of projects get closed out."

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