



## INVESTOR'S BUSINESS DAILY\*

March 27, 2008

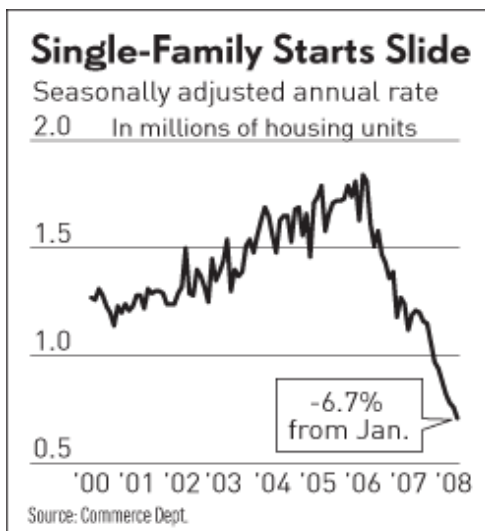
# Lots Of Uncertainty Developing In The Market For New Homes

By KATHLEEN DOLER

Sparkling granite countertops, state-of-the-art appliances, fresh paint, never-walked-on carpets: The lure of a brand new home is undeniable. And bargains appear to abound, relative to pre-downturn values.

But today this market is rife with risks. Developers are putting some communities on hold for lack of demand, incentives may not provide good value, and prices are still falling. Census data released Wednesday show that new home sales plunged nearly 30% in February to a 13-year low. The median price fell 2.7% from a year earlier.

Buyer beware, real estate agents say. Be informed and very, very cautious. What looks like a bargain might be a bad bet.



"I never recommend a development that's not fully built-out yet," said Becky Loar, an Atlanta-based ERA broker. "Never, never, never — the amenities are not built and people are paying HOA (homeowners' association) fees."

### Contracting Construction

One risk, especially realistic now, is that a builder could mothball the project, leaving would-be residents in a lurch and those who've already moved in stuck, surrounded by vacant lots. **Pulte Homes**, (PHM) **D.R. Horton**, (DHI) **Centex** (CTX) and other big developers have all been mothballing communities during this dramatic real estate downturn.

Builders continue to scale back production, the National Association of Home Builders noted last week, as a report showed single-family housing starts fell 6.7% in February from January. The drop was 40.5% from a year earlier.

In California, production of single-family homes plummeted 60% from a year earlier, the California Building Industry Association reported Wednesday.

At the end of February, Centex stopped building at its Cypress at Kavala Ranch development in Rancho Cordova, Calif., near Sacramento. Pulte has mothballed 58 communities, executives told analysts on a fourth-quarter 2007 conference call. Forty-six of the communities "have never been opened," Chief Financial Officer Roger Cregg said on the late-January call.

That leaves 12 opened but now sitting unfinished.

New developments come with other drawbacks. They often are away from services and schools. And they can bear special tax assessments and transfer fees that older communities don't require.

In California, some of these developments are Mello-Roos Districts, named for the authors of a legislative measure. Here, the community and developer pass on the cost of streets, sewer systems and other basic infrastructure to home buyers via annual fees. These go to pay off bonds issued by the district, which can be thousands of dollars per year and go on for many years.

Near Lake Tahoe, the new luxury communities of Old Greenwood and Gray's Crossing are both Mello-Roos Districts. These developments among others in the Truckee, Calif., vicinity also are subject to town transfer taxes that can run 0.25% to 1.75% of a home's sale price, says David Hipkins, a local agent with Keller Williams Boice Realty. He adds that older communities such as Tahoe Donner are not subject to the fees and taxes.

"New developments can have a lot of hidden extras, especially in California," Hipkins said. "This is the way cash-strapped counties and municipalities generate additional revenue."

People determined to buy new, despite caveats, can scrutinize incentives to find value.

### What Perks Pay?

Builders have cut prices and raised incentives. **Lennar** (LEN) offered buyers \$48,000 worth of incentives in the first quarter, up \$3,000 from a year earlier. That and price drops pushed the average Lennar home sale price down 8% to \$278,000, it reported Thursday.

Price cuts aside, discount financing "is the only real legitimate incentive builders offer and definitely something buyers should look at," said Brock Harris, owner of Brock Real Estate, in Los Angeles.

Over the years a home is owned, a quarter or half-point discount on financing vs. prevailing rates can amount to huge savings. But buyers need to make sure they understand the financing deal's fine print — the deal might not be better than what's available from a mortgage broker.

Harris says buyers are smart and can see through other sexy, but perhaps silly, incentives. "If the home comes with a \$40,000 car, they think the home is \$40,000 overpriced," he said.

But free or discounted upgrades, such as granite counters or high-end flooring and cabinetry, can be a good value long-term, says Houston broker Bill Jones, president of Wayland Hancock Properties. Upgrades can boost resale value.

Buyers, of course, must grapple with the question of whether they're pulling the trigger too soon because prices are still falling.

"No one rings the bell at the bottom," signaling prices have hit the floor, Harris said.

### Seeking A Safety Net

However, some builders are piling on floor cushions in an attempt to quell buyer worries. **KB Home** (KBH) says it offers price protection on some of its new developments. Marketing materials promise that with it: "If the base price of their home at the time of closing is less than the original purchase price, KB Home will honor the lower price."

Harris advises reviewing contracts very carefully. "Make sure your deposit is refundable," he said.

Outside of Houston, buyers have a large number of new developments from which to choose, many from big-name builders. Jones says the reputation of the builder is important in determining the value of a home and whether a builder is apt to honor warranty promises.

"Do not wander into a new home development without representation from a local Realtor," he said.

Jones, a former president of the Houston Association of Realtors, says an experienced one can advise which builders have the best reputation in the area for well-designed, well-built communities.



Copyright © Copyright 2008 Investor's Business Daily. Permission granted for up to 10 copies. All rights reserved. You may forward this article or get additional permissions by typing [http://license.icopyright.net/3.7543?icx\\_id=20080327realestateleft](http://license.icopyright.net/3.7543?icx_id=20080327realestateleft) into any web browser. Investor's Business Daily Inc. and Investor's Business Daily logos are registered trademarks of Investor's Business Daily Inc.. The iCopyright logo is a registered trademark of iCopyright, Inc.