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## Car Dealer Tactics on the New-Home Lot

To Sell in a Slow Market, Builders Slash Prices and Offer Financing Deals

By Nancy Trejos  
Washington Post Staff Writer  
Monday, October 8, 2007; Page A01

Won-Ki Choi and his wife Janice had their eye on the townhouse at East Market at Fair Lakes for some time. But the \$536,449 price tag was much too high for them.

Then they saw a newspaper ad from Ryland Homes: For two hours on a recent Saturday afternoon, the Calabasas, Calif.-based builder would sell 140 homes in the Washington area at a discount, through a silent auction.

The minimum bid for the 2,068-square-foot Fairfax County home was \$429,999. Won-Ki Choi wrote his name down minutes before the auction was scheduled to end at 3 p.m. He was the only bidder.

"This is your lucky day," Jerie Wolicki, a company receptionist, told him amid applause.

When the housing market began to weaken, builders responded with incentives such as money toward closing costs and low-interest loans through their mortgage arms, but they did so without cutting their base prices. Faced with a glut of unsold homes and canceled contracts, builders are now turning to tactics typical of car dealerships and department stores. What's even more unusual is that the deals are often accompanied by deep price cuts, which builders had been reluctant to do up until now.

"It's a little odd thinking of homes being sold that way," said Dean Baker, co-director of the Center for Economic

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Won-Ki Choi holds his son Jungwoo, 2, as his wife Janice wipes tears of joy from her eyes after hearing that their \$429,999 bid won in a silent auction for a Fairfax County home normally priced at \$536,449. (By Susan Biddle - The Washington Post)

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Craftstar Homes recently had a "Luxury Home Clearance Sale!" where customers could win a vacation and up to \$110,000 off an already-built house. Buy a Ryan Home and get "employee pricing," or 10 percent off the purchase price up to \$35,000. At the Sterling at the Metro, a condominium community in North Bethesda, buyers got \$50,000 off the price or toward closing costs last weekend.

"It's one gimmick after another," Baker said.

But the buyer should beware, housing experts say. The sales typically come with conditions, disclosed in the fine print, such as use of the builder's lender. And in the case of the auctions, buyers can often negotiate the lower price or incentives even if they don't make the decision that day.

Still, said Chris Longly, public affairs manager for the National Auctioneers Association, such sales are the fastest-growing sector of the auction industry. "We're seeing more of it every day, especially this particular type of auction where builders are choosing to go to auctioneers to help them liquidate the properties," he said.

If it all seems a bit desperate, there's good reason. Sales of new homes dropped nationally in August to an annual pace of 795,000, the lowest level in more than seven years, and the median price dropped 7.5 percent from a year earlier, the Commerce Department recently reported.

And the tightening of credit from a rise in foreclosures, especially among risky borrowers with adjustable-rate mortgages, is expected to push even more potential buyers out of the market. The foreclosures are also likely to add to an already-bloated inventory.

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"They are using probably whatever techniques and methods to try to sell those houses any way they can," John McClain, senior fellow at the Center for Regional Analysis at George Mason University, said of the builders.

Many of the nation's top builders, including Los Angeles-based KB Home and New Jersey-based K. Hovnanian Homes, reported losses in the third quarter.

Builders are "slitting each other's throats trying to get market capture and compete with resales," said Kenneth Wenhold, regional director of real estate research firm Metrostudy.

As a result, he said, a handful of builders have cut prices considerably, up to 20 percent.

"It's the excess inventory that is killing these builders," Wenhold said, while noting that D.C. area builders are faring better than those in markets such as Las Vegas and Florida that had even more rapid price appreciation. "For every month that it's unsold, they basically have to write checks to the banks."

Builders say they have no other choice.

"We were trying to figure out how do we break through all the clutter that's out there with home builders" said Mike Disler, Ryland's Washington Division president. "I think people understand that it's totally beyond our control and all the builders are reacting to market conditions."

In fact, 52 percent of builders surveyed in August

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reported lowering sales prices, unheard of a few years ago, said Gopal Ahluwalia, staff vice president of research for the National Association of Home Builders.

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About one-third are offering huge reductions for a limited time, he said. More than 70 percent are offering some kind of concession compared with 50 percent four years ago, he said.

On Oct. 28, Parkside Alexandria, in partnership with Accelerated Marketing Partners of Boston, will offer 30 condominium units at Parkside at Alexandria during a live auction. Most of the other 348 units were sold the traditional way. "Basically, conventional strategies aren't working," said Jon Gollinger, chief executive of Accelerated Marketing Partners, a real estate marketing firm.

Two-bedroom condos that recently sold for \$340,000 will go for a minimum of \$225,000. Asked how those people who paid market price for their units would feel about the auction, Gollinger said they're better off having a sold-out building.

"If it's lower than what other people have paid, so be it," he said. "That's a decision we've made for better or for worse."

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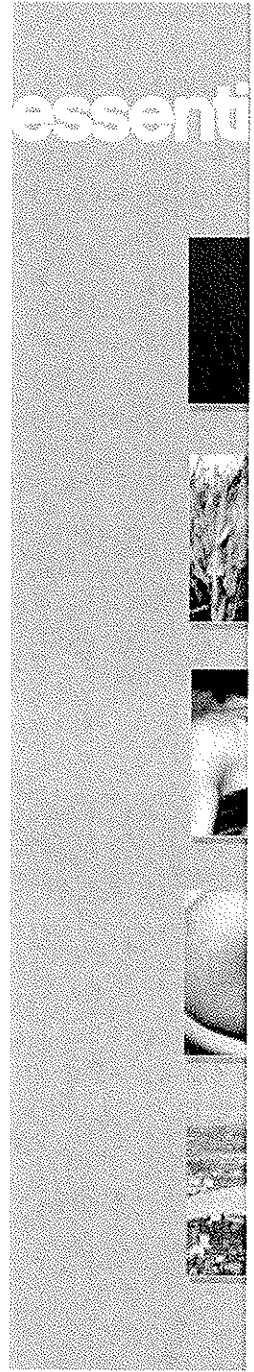
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Builders said the auctions and sales have produced generally positive results.

During one weekend last month, K. Hovnanian held a "Deal of the Century" sale with price reductions of up to \$100,000. The company sold more than 2,000 homes nationwide, said Dee Minich, group senior vice president of sales and marketing.

Up until Oct. 31, the company is having a "BOGO," or buy one get one free, sale. For every option you pay for, such as hardwood floors, you'll get another one of equal or lesser value free, the company promises in full-page ads.

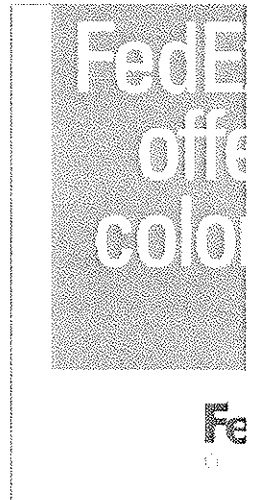
Ryland's Disler would not disclose how many homes the company sold during the silent auction. But he said the number of contracts was up about 40 percent in the company's Washington area communities from the average during the six to eight weeks before the auction.

"I think it kind of accomplished some of the objectives but wasn't as robust as I wanted it to be," he said.

At East Market at Fair Lakes, the Chois ended up being the only bidders, although there were plenty of potential buyers touring the four available homes.

Even though there wasn't much suspense, Janice Lim Choi cried when told that she and her husband had won the auction. They had looked at dozens of houses over three months. "The price is very reasonable," said Won-Ki Choi, a federal government worker. Then he turned to a Ryland employee. "Don't you think the price is okay?"

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