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REAL ESTATE

## Home builders offer deals to lure nervous buyers

By [John Spence](#), MarketWatch

Last Update: 2:56 PM ET Sep 18, 2007

**BOSTON (MarketWatch) – Residential builders are launching promotional price reductions and other incentives in a bid to attract anxious homebuyers and move standing inventory off their books.**

A three-day national campaign this weekend by Hovnanian Enterprises Inc. ([HOV](#)) featuring price cuts as deep as \$100,000 has drawn special attention and was seen as a sign of just how bad things are in the U.S. residential housing market.

Dubbed the "Deal of the Century" sales promotion, Hovnanian said it topped expectations and resulted in more than 2,100 home sales.

"Market conditions have changed," said Chief Executive Ara Hovnanian during a Web cast presentation Tuesday from a home-builder conference hosted by Credit Suisse. "The market has been fraught with concessions and incentives."

The CEO said the recent promotion led to sales rates that were 10 times the recent pace.

"There are interested buyers in the marketplace," Hovnanian said, but they are hesitant because they want to catch the bottom. Also, potential buyers hear negative commentary on the housing market in the media and the problems shaking the mortgage market, he said.

The fears are hitting the entire home-building industry. The National Association of Home Builders said Tuesday its confidence index fell again in September, tying the all-time low reached in early 1991. [See Economic Report.](#)

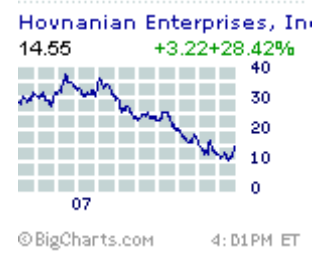
"Builders are expressing concern that home buyers are getting spooked by the many headlines they are seeing on mortgage-market issues and their continuing effects on the housing market and home prices," said NAHB President Brian Catalde in a statement. "Indications are that consumers are trying to time the bottom of the market before making their purchase."

Hovnanian isn't the only home builder seeking to hook buyers with lower prices and other incentives.

"It's something we have to accept. It's part of the business today," said Beazer Homes USA Inc. ([BZH](#)) CEO Ian McCarthy, who added that his company has been running promotions since June 2006 and is planning more. "The market needs to be addressed in different ways today."

Aside from selling homes, sales promotions bring in traffic and leads which can by themselves get buyers to the table.

"People just don't turn up anymore," McCarthy said. Beazer's shares were off nearly 80% heading into Tuesday's session, and the company has delayed filing its quarterly financial results as a result of ongoing internal and regulatory investigations.



## More deals to come?

Home builders are struggling against a glut of unsold homes, and cancellation rates have surged, resulting in the parade of special offers. But some market watchers think these sales promotions aren't necessarily a signal that buyers should jump into the market now.

Although Hovnanian's recent event will likely generate cash flow and reduce the company's leverage, "competitors are likely to respond with even bigger discounts, so deals for homebuyers are likely to get even better over time," wrote Banc of America Securities analyst Daniel Oppenheim in a research note this week.

Also, the promotion may trigger more cancellations in Hovnanian's backlog as buyers "either cancel or renegotiate the contract price to reflect the recent sale price," the analyst said.

"In addition, we expect mortgage issues to prevent many buyers currently in the backlog from closing without further price concessions, since appraisers will likely use the recent sales as comparisons," Oppenheim wrote.

CEO Hovnanian said price reductions always upset recent buyers, but added that he doesn't expect any "issues" with the backlog.

Dan Klinger, president of Hovnanian's mortgage business, said some of the deals during the recent event were pre-qualified for home loans, and that he expects by the end of this week to get a handle on how many buyers qualify for mortgages. He acknowledged that lenders are demanding better credit ratings, more money down and better income documentation.

Although sales promotions boost cash flow and reduce inventories for home builders, some wonder if the potential backlash is worth the upside.

"People will mistrust their prices," said Danielle Babb, real estate expert and co-author of the book "Finding Foreclosure: The Insider's Guide to Cashing In On This Hidden Market."

She questioned if big sales events like Hovnanian's trade short-term gains for long-term pain. The public companies may be submitting to shareholders demanding cash flow and lower inventory levels, but they end up angering rivals and homeowners by changing the playing field for prices in certain markets, she said.

Also, buyers may end up simply waiting to see if another "Deal of the Century" comes along.

"Buyers are seeing how desperate builders are, so they figure there might be more deals," Babb said. "More home builders will do this if Hovnanian is able to close on a lot of these homes it sold." ■

*John Spence is a reporter for MarketWatch in Boston.*

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