



Contra Costa Times
Client: Taylor Morrison
March 28, 2008

Builders Discover Best Incentive: Price

Jim Hammett, 64, was the first person to move into Taylor Morrison's 76-unit Sendera development in Concord in November. His three-bedroom, two-and-a-half-bath, Plan 1 home was \$597,000, but in a phone call from the builder he found out that prices dropped \$50,000.

"I asked if that was going to include me because I was already in contract," he said. "They said yes."

But Taylor Morrison didn't stop there. When Hammett couldn't pay more than \$3,000 a month, the builder kicked in money to lower his monthly mortgage payment from \$3,800 to less than \$2,500 a month.

"They really wanted me to buy out here and gave me what I wanted," Hammett, a retired police officer, said.

Forget trips to Hawaii, luxury cars and 50-inch plasma screen televisions, now builders know the only incentives that work for buyers are cheaper homes and smaller monthly payments.

"For most, it's payment-sensitive," said Vickie Nyland, Taylor Morrison division president of the Bay Area. "In the core Bay Area market, they're really buying a monthly payment."

Cheryl O'Connor, vice president of sales and marketing for Warmington Homes in San Ramon, said that builders adjusted their prices to compete in markets now littered with bank-owned properties and resale homes.

50 oak court · suite 201
danville · ca 94526
t. 925.837.9380
f. 925.838.2613

660 mission street · suite 440
san francisco · ca 94105
t. 415.354.9440

emccreative.com

“We’ve gotten rid of a lot of the gimmicky trips and stuff like that,” she said. “Now you will find most of the incentives are buying down the interest rate or help with closing costs.”

O’Connor said that in the last six months there would have been giveaways of \$100,000 to \$200,000 in upgrades, but now builders have responded to market conditions by releasing smaller phases and pricing accordingly. Now the incentives are about 10 percent or less of last year’s discounts,

O’Connor said that credits range from \$5,000 to \$10,000 for buyers in their Bayport Alameda development, a project with prices that range from the high \$700,000s to the mid-\$900,000s. She said most use the credits for a better interest rate or as credits for upgrades, although buyers can also use the credit for closing costs.

Greg Paquin, president of the Gregory Group, a real estate information and consulting company based in Folsom said in an attempt to be competitive, builders deflated original prices rather than give steep discounts.

“It’s an interesting move and I think you will see it a little bit more in areas hit a bit harder,” he said. “It’s not going to go down another \$50,000. All the massive incentives; the trips, cars and all that, has pretty much gone away.”

KB Home announced in a January press release that the company would be practicing “price protection,” or a guarantee “that 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.” The Los Angeles-based company also said it would be creating a “rate lock” program where the builder covers the cost of locking in an interest rate until their custom home is built and ready to move in.

“It gives buyers a little more confidence in the market,” said KB Home Northern California and Northern Nevada spokesman Craig LeMessurier. “If the price goes down \$5,000 to \$10,000, we give them the price at close.”

LeMessurier said that communities in the Central Valley, like their four developments in Lathrop, are most affected by the falling prices, which is why he said KB Home was the first major builder to launch the two new programs.

“A few other builders jumped on the ship afterwards,” he said. “I’d say it hasn’t been a traffic driver, it’s really just more of an encouragement.”

Matt Koart, Pulte Homes’ area president for Northern California in Pleasanton, said that incentives may not always be the best deal and buyers will gain more with builders who price homes correctly.

“The customer has to figure out the base price and weigh the alternatives,” he said.

He said that Pulte’s incentives range from discounted upgrades and premium lots to lowering interest rates catered to the individual rather than a general policy.

“Builders aren’t interested in making money on deposits,” said Jonathan Dienhart, director of Published Research at Hanley-Wood Market Intelligence in Costa Mesa. “But once the home is closed and the buyers have moved in, that’s where the deal ends. It’s just an incentive to stave off cancellations.”

O’Connor said that Warmington Homes does offer a price guarantee, so that if the developer adjusts pricing, the buyer will get the adjusted price. Also added are guaranteed rates with its affiliated company, Baypoint Mortgage.

She said that tougher markets, like East Contra Costa County, are reliant on the credit more so than those in the “core Bay Area.”

Les Lifter, regional vice president of marketing for Northern California and Nevada for Lennar, said that his company always used incentives based on closing, competition and inventory. “But there are better incentives in certain locations than others,” he said. “Eastern Contra Costa County has been much more competitive and challenging market.”