

B&D BUILDING MARKET STRATEGIES

Thawing Out a Frozen Market

From house swapping to auctions, builders are getting creative to boost the market.

By Patrick Duffy

Since it seems that any potential remedies offered by the federal government to address the frozen market for home sales and mortgages could take months to have a large impact, both builders and existing homeowners stuck with unwanted inventory have, by necessity, become much more creative. From housing swaps, auctions and providing insurance against pricing declines to leveraging unused home equity with reverse mortgages or offering hard money property loans, some sellers and buyers are finding that a little ingenuity can sometimes trump a market in paralysis.

For some sellers not willing to wait for the market to rebound, swapping one home for another can break the logjam starting with the most efficient of mediums, the Internet. Starting as low as \$19.95, potential swappers can list their homes on one of several websites which, according to a recent article in the Wall Street Journal, collectively offer 16,000 such postings. Builders are also getting jumping in – albeit gently – by offering to buy older trade-ins much like car dealers have done for years. Although that can simply mean substituting older inventory for new, by spreading out these unsold homes builders can more effectively control potential pricing declines and defend already fragile images. To protect everyone's interests, experts strongly recommend using the same escrow company which won't close

the deals until all parties are in agreement.

After a hiatus during the boom years, real estate auctions have also made a comeback, but now are increasingly used by individuals just as much as developers. Now approaching a \$60 billion industry, both sellers and buyers agree that auctions are an efficient and objective way to determine a property's true market price. In addition, buyers at auctions are more serious than model home 'be-backs': to even

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participate they usually have to arrive with cash or cashier's checks of \$10,000 to \$20,000 and close within 30 to 45 days. Although accepting discounts of up to 40 percent or more may be hard to accept for most builders, the associated carrying costs for finished inventory over weeks or months in pursuit of a full-price sale could very well be a wash.

Since many buyers continue to stubbornly await some mysterious green light to tell them it's again time to buy, some builders are offering a form of pricing insurance that protects customers during the time period between a signed contract and a closed escrow. While Ryland Homes will reportedly offer price protection to anyone who asks, KBHome is taking a more aggressive stance and planning to launch its program to 35 markets in early 2008.

Builders who cater to an active adult buyer – such as Del Webb, Meritage Active Adult

Communities or Shea Homes' Trilogy product line – could also conceivably benefit from a recent boom in reverse mortgages. With private lenders such as Countrywide, Wells Fargo and IndyMac's Financial Freedom now rolling out jumbo reverse mortgages that don't cap loan amounts like the FHA variety, borrowers can use the cash proceeds for any use they want – including the purchase of second homes that are used less than 50 percent of the time. Once derided as loans of last resort for poor seniors, reverse mortgages are increasingly seen as unique and useful financial planning tools that can leverage untapped home equity and can provide long-term security as well as maintain comfortable lifestyles.

Finally, for those buyers who simply can't wait to move and with sufficient equity of their own, 'hard money' mortgages – which require collateral as high as 30 to 40 percent to minimize risk but charge an interest rate premium and high fees -- can lend borrowers some time until some much-needed liquidity returns to the market. Although used mostly by the wealthy, some experts believe that the disappearance of the sub-prime market could prove a boon to investors looking for a higher rate of return than can be found on Wall Street but without the risk of today's mortgage securities. After all, the markets can't thaw out until even the most creative of players are willing to act.

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Fast Facts



- Starting as low as \$19.95, potential swappers can list their homes on one of several websites, that according to a recent article in the Wall Street Journal, collectively offer 16,000 such postings.

- At classified advertising behemoth Craigslist.org, home swap listings soared to nearly 7,400 by the end of 2007.

- To even participate, buyers usually have to arrive with cash or cashier's checks of \$10,000 to \$20,000.

- Sales usually close within 30 to 45 days.