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Auctions new way to sell new homes

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New homes in East Palo Alto will be auctioned off on June 29. John Hunter, the site's developer, never imagined he would market the homes this way when he began the project. He has been a developer for 30 years.

"Going once, going twice, sold" is ringing throughout the Bay Area as home builders have discovered auctions as one way to survive a tough housing market.

No longer reserved for distressed property on the courthouse steps, today's auctions occur in swanky hotels where hundreds of prequalified buyers bid on newly constructed homes for as much as 40 percent less than the original asking price.

While the discount prices may wreak havoc with a builder's bottom line, it beats letting the homes languish on the market, or worse.

"It is way better for a developer to take a discount, get traction in the community and get those units off the books," said Ken Stevens, principal of Accelerated Marketing Partners.

Stevens said his Danville company has handled auctions throughout Northern California for developers who cannot afford to wait until the market rebounds. Auctions, he said, provide "breathing room."

"It's better to get rid of inventory and pay down the loans, than lose the project and let the bank do the same thing," he said.

Auctions, however, aren't for all builders. Robson, Warmington and Taylor Morrison home builders have handled excess inventory in their Silicon Valley projects by pricing their houses to sell. But in regions located farther from Bay Area job centers, auctions appear to be just the ticket.

DeNova Homes took the plunge in November when the Walnut Creek builder put 18 single-family homes up for auction in Morgan Hill. Lori Sanson, vice president of the company founded in 1989, said it took less than an hour to sell houses for about \$500,000 that were originally priced at close to \$900,000.

It wasn't easy to watch, Sanson said, but she will do it again on July 20 when DeNova holds its fifth auction, again in Morgan Hill for its Viento project.

"These are trying times," she said. "It's fair to say that overall we've been pleased with the (auction) results. It has allowed us to move on. Otherwise we'd still be **there**."

Setting it up for sale

Staging an auction costs a builder from \$150,000 to \$200,000 for newspaper and billboard ads, booking space in a hotel and buying the food for the event. Buyers, who register on a Web site, are prequalified before they are handed a paddle and admitted to the auction floor.

"Results have been incredible, considering the market," said Tom Reiser of Alamo-based Reiser Group, a marketing company. "When the communities hit a standstill and you've tried everything else, auctions create urgency. You determine a minimum bid and get the hype going."

Builders usually get 15 percent more than the minimum bid, Reiser said, adding, "If you double that, that's a home run."

John Hunter, a developer for 30 years, is hoping his project scores when he auctions 23 lofts and townhomes at Cummings Park in East Palo Alto on June 29. Bids start at \$299,000 for condos and \$375,000 for townhomes.

An auction was the last thing on his mind when he began the project in 2003. Now, he said, he has no choice.

"I've never seen a market like this one," said the home-building veteran.

Hunter got caught in the new rule recently imposed by lenders requiring 51 percent of a condominium project to be sold before buyers can obtain mortgages in the project. He has eight buyers, but they cannot close escrow and get their loans until 51 percent of his project is sold.

"It's a Catch-22," he said. "This is a result of the mortgage fiasco."

He said the requirement puts his eight buyers at risk. If they don't have the time or patience to wait until he sells half the units, they may walk away.

"I think lots of builders will have to use auctions to get past the 51 percent hurdle," he said. "I just don't see any **other way to do it.**"

Auctions viewed differently

As auctions have become more popular, they are losing their stigma as the sale of last resort for distressed properties. Home builders such as Pulte, Standard Pacific and William Lyon are all doing auctions in Northern California, Stevens said.

"It's become a marketing approach to unloading a lot of inventory," Reiser said.

But Alan Mark, head of the marketing firm the Mark Company of San Francisco, questions whether auctions are a good idea for projects that are just opening.

"If you want to close out a building and just have a few units left, they're a good tool," Mark said.

It depends on the goal of the developers, he said. Some need to make a payment to a lender, so it speeds up the process and brings in that immediate cash.

"But often developers may be turning down offers that are better than the prices they end up with at auction," Mark said. "I just think it puts a stigma on the building."

Stevens disagreed. "We've been back by popular demand for about a year," he said. "The key thing is we use an inverted selling strategy, and set prices as low as a developer can stomach. Then we keep people out of room who are not realistic buyers by prequalifying them."

Not surprisingly, the auctions can get exciting.

"We've had people jumping up and down and screaming," Stevens said. "Clearly, it's not what the seller really wants, but if you can sell 23 townhomes in an hour that's a house every three minutes."

Hunter said he is gratified with the reaction generated so far by the publicity about the auction.

"The response is very, very positive. People really love the project," he said. "The buyers are going to get a bargain on this one."

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