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Builders push to clear inventory

Silicon Valley / San Jose Business Journal - by [Katherine Conrad](#)



Vicki Thompson

“This is a market like none of us have ever seen,” said DKB Homes’ Chuck Walton, shown with Cynthia Abbes Siwecki of the Reiser Group, a marketing firm that represents several builders.

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In the face of a bearish housing market still searching for a bottom comes the largest auction of new homes held in Northern California.

Eager to put 2008 behind them, almost a dozen builders are auctioning 150 homes in 12 different projects on Nov. 22, with the goal of getting the inventory off the books by Dec. 31.

“We just wanted to sell the rest of the homes by the end of the year,” said Chuck Walton, manager of DKB Homes LLC. The company’s Sienna neighborhood, a 19-home project near a golf course in San Jose, will have a handful of properties on the block.

“The auction felt like a good way to do it,” Walton said.

With sales of new homes off drastically from a year ago, it’s clear that builders — especially those with projects in outlying areas — had to do more than drop prices or throw in upgrades. The Ryness Co., a Danville-based firm that tracks new home sales, reported that during the

week that ended Oct. 26, sales were off a whopping 68 percent from a year ago. Just 29 new homes sold that week in the 257 Bay Area projects, compared with 91 sales in 2007.

It's a tale of two trends given the tally from the California Association of Realtors, which reported that sales of existing homes shot up 97 percent across the state in September compared with the same month a year ago. Prices, on the other hand, dropped 40 percent.

“This is a market like none of us have ever seen,” Walton said. “The predictions are that it will continue through 2009.”

Auctions don't appeal to all builders, nor are they needed by developers who are selling new homes in desirable locations that boast strong school test scores. But for those who are struggling and competing with all the foreclosed property flooding the market, a group auction seemed a sensible way to go.

“We wanted to create a year-end close-out kind of a sale,” said Ken Stevens, principal of Danville-based Accelerated Marketing Partners, which is coordinating the auction. “This is basically saying these developers want to move inventory. We're creating an event that creates some real public interest.”

Given the tough economic climate, the auction also offers builders an opportunity to pool their resources for the one-day event scheduled to be held at the San Ramon Marriott. Going solo can cost a builder \$200,000.

Developers who signed on for this event include Castle & Cooke Inc., Braddock & Logan Homes, Clarum Homes, DKB and DeNova Homes. Their projects include a full range of housing options from the link-side homes in San Jose to condominiums in Oakland, town homes in Kirkwood, and 4,000-square-foot estate homes in Danville. The latter had been on the market for \$2.4 million and now are priced at \$1.5 million.

Most of the new home communities up for auction are located in the East Bay, in cities such as Vallejo, Walnut Creek, Danville, Oakland and San Leandro, where job growth hasn't been as robust as in Silicon Valley. Only two projects in the South Bay decided to join the auction, and both are located in San Jose — Wind Rose by Braddock & Logan and Sienna by DKB. DeNova Homes of Pleasant Hill is offering half-

acre lots in Gilroy for sale with prices slashed 50 percent to \$225,000.

Minimum bids are usually 40 percent of the most recent asking price, but they can go lower. If the sold price is 15 percent over the bid, it's considered a successful sale.

It's a far cry from the frenzied days not so long ago when developers resorted to selling homes by lottery after buyers began camping overnight. But auctions are quickly becoming more common. Stevens said his company has held about 25 events since Accelerated Marketing began conducting auctions a year ago.

“Buyers are getting a great deal. The builders are never happy with the prices that we get them. But you have to understand the market,” he said. “We're also saving builders a good amount of money by retiring their construction loans.”

Still, auctions are not an easy decision to arrive at for builders, many of whom spent hundreds of thousands of dollars buying the land and entitling it for development.

DKB is selling the last remaining homes in its Sienna neighborhood on East San Antonio Road in San Jose. The homes, built next to a golf course, are about 2,000 square feet and initially went on the market in 2006 for \$700,000. Prices at the Nov. 22 auction will start at \$425,000 — a drop of 40 percent.

But even at such reduced prices, builders may not sell every home.

Tom Reiser, a partner in Walnut Creek marketing company The Reiser Group, which represents several builders, cautioned builders against having high expectations.

He handled an auction in March for a 157-unit high-rise condominium project, Eight Orchids, in downtown Oakland that did not sell out that day — but it has continued to generate sales from the auction list of 1,000 prospects ever since. Another couple of dozen units have gone into contract based on the buzz generated from the auction.

“That auction re-kickstarted the market, and it did sell homes because we brought eyeballs to our market,” Reiser said.

Reiser said when the the bottom of the market comes will depend on

how quickly foreclosed homes move through the cycle. As it is, the number of homes available are weighing heavily on prices.

“We’re hoping to see some thawing in the spring. But there’s still a lot more foreclosures. This is unprecedented,” Reiser said.

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