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Slumping builder slashes home prices

Hovnanian offering 6-figure discounts

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Just a few years ago, Hovnanian Enterprises held lotteries to sell new homes because demand for housing was white-picket-fence hot.

Now, with the residential real estate slump deepening by the month, the largest New Jersey-based homebuilder is holding a fire sale at developments across the country. Prices this weekend will be slashed by up to six figures -- \$100,000, \$149,000, in some cases \$240,000.

It's a sign of just how far the housing market has fallen from the boom years -- and just how desperate homebuilders such as Hovnanian are to move inventory.

"Crazy Eddie is back in the real estate business," said Keith Gumbinger, vice president of HSH Associates, a consumer research firm in Pompton Plains. "Folks who are sitting on the fence right now are waiting for a reason to buy."

Other developers have offered rich incentives, from cars to vacations, to entice buyers during the market's downturn. But housing industry experts say the discounts being offered by Hovnanian are unprecedented.

One homebuilder, Lennar, slapped huge discounts on some of its homes late last year, according to Jeffrey Otteau, president of the Otteau Valuation Group, an East Brunswick real-estate consulting firm. "Other than that, I don't remember anything on this scale," he said.

Hovnanian, based in Red Bank, says it expects hundreds of home buyers to crowd its developments this weekend throughout New Jersey. The so-called "Deal of the Century" sale, which covers 19 states, begins at 9 a.m. Friday and ends Sunday at 9 p.m.

"Our competitors have done this only with some degree of consistency," said Michael Skea, vice president of marketing and sales for K. Hovnanian Homes-Northeast in Edison. "The long and short of it is that folks are looking for homes that are right-priced. Some people will perceive this as a fire sale, but we do not."

RED TAG SALE

Hovnanian is holding what amounts to a weekend red tag sale because the real estate market continues to slump in New Jersey and around the nation. New home sales in the Northeast plunged 24 percent in July, according to the Commerce Department. In New Jersey, the inventory of unsold homes in June soared to a record 72,000, compared with just 39,000 during the same period two years ago.

"The outlook for housing remains poor, with ongoing adverse implications for the rest of the economy," said Charles Lieberman, chief investment officer of Advisors Capital Management, a Paramus money manager.

Hovnanian's fortunes reflect that downturn. The company lost more than \$80 million in the quarter ending in July, compared with turning a profit a year earlier, and sales tanked by 27 percent. The company's stock has plunged to about \$10 a share, down from \$60 early last year.

As an example of how tough the market is, Hovnanian is lopping 25 percent off the price of a Hazeltine model at its Four Seasons at South Knolls development in Jackson Township. The single-family home with

1,788 square feet of space, two bedrooms and two baths will be offered this weekend for \$300,501, the company said. The original asking price was slightly more than \$400,000.

Not every discount will be so generous. "Incentives at each community will vary, and the incentives on certain model types within the same community may also vary depending upon their stage of construction as well as their location within the community," Skea said.

DEPRESSING AN ENTIRE MARKET

The problem with such massive sales promotions is they could depress the value of other homes sold in recent months.

"It certainly doesn't help home values because it drags down comparable sale prices," said Greg McBride, senior financial analyst for Bankrate.com, which tracks the real estate loan market.

Skea, the Hovnanian vice president, said the company recognizes some recent homebuyers might feel uneasy about the sale. However, most of those buyers probably received some type of incentive as well, he said.

"Those who purchased previously already chose the home and location they wanted," he said. "Those may not have been the same if they'd gotten a 'Deal of the Century' home."

The price cuts will be offered at 17 Hovnanian developments in New Jersey. Details are available at the developer's Web site (www.khov.com).

Home prices are expected to rise an average of 0.5 percent this fall and then retreat by that much during the winter before dropping between 2.5 percent and 4.5 percent next year, according to Barclays Capital Research. The declines will be "driven mainly by an excess supply of homes on the market, a reduction in the availability of mortgage credit" and a fall off in home buying by real estate speculators, the research firm said.

Home prices have declined because inventories of existing homes are at their highest levels since 1991, according to Steven Wood, chief economist for Insight Economics. Sales peaked in the summer of 2005.

July was the 12th consecutive month "that median prices have declined on a year-on-year basis, the longest period since data collection began in 1968," Wood said.

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