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market report

-0.9%	» Nasdaq	» 2,637.13	» -23.83
-0.4%	» Dow Jones	» 13,314.57	» -57.15
-0.6%	» S&P 500	» 1,472.42	» -8.72
-1.1%	» Mercury News 150	» \$1.475 trillion	
—	» Bonds*	» 3.89%	» -0.06
-0.6%	» Dollar (vs. yen)	» 110.47	» -0.68

*10-year Treasury

»FINANCIAL STOCKS LEAD MARKET LOWER
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Real estate

What builders say



"While foreclosure rates are high in the Central Valley, I think the Bay Area is resilient."

— VICKIE NYLAND, TAYLOR WOODROW HOMES



"Buyers don't ask about the price anymore; they ask: What are you offering? We have no published incentives."

— SCOTT MENARD, SUMMERHILL HOMES



"2008 will be fairly flat in terms of sales numbers and pricing. In 2009, there will be more strength."

— CHERYL O'CONNOR, WARMINGTON HOMES

NEW HOMES IN SILICON VALLEY ARE SELLING WITH HELP FROM DISCOUNTS AND INCENTIVES

Three home builders — one local, one headquartered in Southern California and the third based overseas — sat down recently with Mercury News Staff Writer Katherine Conrad to discuss the besieged housing market.

The builders — Scott Me-

nard from SummerHill Homes of Palo Alto; Cheryl O'Connor from Costa Mesa-based Warmington Homes and Vickie Nyland from Taylor Woodrow Homes of the United Kingdom — all have 20 or more years in the industry and have weathered several downturns.

Although competitors, they all said that despite the dire headlines, houses in their South Bay projects are selling. That's not to say they are "flying off the shelves" in Nyland's words, but many buyers have realized

See BUILDERS, Page 5C

JOANNE HO-YOUNG LEE — MERCURY NEWS PHOTOGRAPHER



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BUILDERS | Homes selling, not 'flying off shelves'

Continued from Page 1C

that now is a good time to buy. Incentive programs such as no payment for six months that are offered by Taylor Woodrow help. So does a buyer's ability to negotiate at SummerHill's projects.

All three builders, who have built 200 to 300 homes each in the Bay Area, have South Bay projects either starting construction or almost sold out. In San Jose, Taylor Woodrow is down to a handful of homes on Spyglass Hill and Viridian, and is building Modern Ice. SummerHill is building Parkwood in San Jose and just started on the former site of Lou's Village. Warmington recently opened Vantage, its green Palo Alto project that includes solar panels on every roof.

Here is an edited version of the conversation.

Q Talk to us about the market. What are you doing to sell homes?

A Nyland: On a lot of projects, we have had to discount the houses before we put them on the market. When we were going through the entitlement process on Modern Ice, we thought we would be in the \$500,000 range. We didn't think we'd be in the \$400,000s. There has been some adjustment.

The focus of special incentives are for two communities that are more toward the finish line. Marburg Place and Spyglass Hill, both in San Jose, have a no-payment-for-six-months program. The no-payment program is for the buyer who still has a two-bedroom condo in Fremont that isn't selling. We'll make your mortgage payment on the new home for six months while you sell the condo. Or we might end up buying down their interest rate. Instead of 6.5 percent, maybe we'll buy down the interest rate to 6 percent.

Menard: Now our homes include upgrades such as granite countertops and landscaping. The buyers don't ask about the price anymore; they ask: What are you offering? We have no published incentives.

This is a perfect time for new home buyers because they are negotiating. We've found that it's a lot more effective to negotiate every single deal on its merit.

Our traffic numbers are down, but the market still looks like it's OK — except for the bad press, and that makes people more paranoid.

O'Connor: New homes are a bargain. New housing is priced to sell. We're not offering incentives, but we will buy down a jumbo loan by offering to buy down 7 percent down to 6 percent rate. We have 285 homes closing this year — 20 percent less than last year. In both South Bay markets, we are offering a short-term buy-down. For example, if the interest rate on a jumbo loan is 6.75 percent, the first year we'll buy down to 4.75 and the next year to 5.75, and then years three through 30, the rate is 6.75 percent.

It's not like an (adjustable rate mortgage) because it's fixed years three through 30, there's no fear that your payment will go up or get out of control. That's understandable for the buyer and it's pretty common. Other buyers want a \$10,000 credit to closing costs. We customize the incentive program to the buyer.

We are seeing quite a bit of activity in terms of sales and offers right now, and actually I'm surprised to see it because of the holidays. Probably the more serious buyers understand it is



Scott Menard

■ **Company:** SummerHill Homes
 ■ **Position:** Chief operating officer
 ■ **Headquarters:** Palo Alto
 ■ **Projects:** Village Square, Parkwood in San Jose; Morgan Square and Woodbridge in Fremont; Talavera in Union City
 ■ **Prices range from:** upper \$400,000s to more than \$1 million



Vickie Nyland

■ **Company:** Taylor Woodrow Homes
 ■ **Position:** President, Bay Area division
 ■ **Headquarters:** North American headquarters in Bradenton, Fla.
 ■ **Projects:** Modern Ice, Hampton Park, Spyglass Hill and Marburg Place, Hawthorn Place, all in San Jose; Morgan Lane in Menlo Park
 ■ **Prices range from:** upper \$400,000s to mid \$900,000s



Cheryl O'Connor

■ **Company:** Warmington Homes
 ■ **Position:** Vice president of sales and marketing
 ■ **Headquarters:** Costa Mesa
 ■ **Projects:** Vantage in Palo Alto; Viridian in San Jose; Montrose Village in Hayward
 ■ **Prices range from:** mid-\$500,000s to more than \$1 million

Source: Mercury News reporting

a good time to buy. Our salespeople are out there and if this is what buyers are requesting, we do it.

Vantage in Palo Alto is our hottest seller. The green features (such as solar panels) bring us attention and give us a unique feature in a down market. We've had 38 sales out of 76 that we are building. We're half-way there.

Q To encourage housing developers to build near transit corridors and job centers, Bay Area cities have allowed older industrial sites to be converted to residential uses. The city of San Jose has signaled that process will slow down in the future. What will builders do without having such sites available?

A O'Connor: Both of our new communities — Viridian in San Jose and Vantage — were built on sites that were previously industrial and com-

mercial buildings, that were not fully utilized buildings. They were not rented out (to companies) and they were kind of a mess. The building in Palo Alto was full of office furniture that we had to give away. Here's a site sitting there, not being utilized, and now it's a great condo project of 76 homes.

The sad part is, where do you go? People don't want greenfield (open space) development in suburbs because they have to drive too far (to their jobs).

What choice do you have? They are not making any more land. The sites close to transportation are commercial sites.

Nyland: This is a huge issue. If this guideline stays in effect, it will clearly suppress the supply of housing in San Jose in the future. I don't know what the solution will be. Can you build live/work units that meet the requirement? On these properties that we've done re-use (of commercial property) they weren't big employment centers. The refrigeration company, where we are building the Modern Ice project, wanted to close their business. Hampton Park was a pallet storage yard.

If someone has a vibrant commercial industrial development that has lots of tenants, they wouldn't sell it to a builder. The properties that a lot of the housing projects are built on are underutilized commercial properties that are not generating a significant tax base to the city.

If we can't be in San Jose, we'll be more in Milpitas or Hayward.

Menard: In terms of the city of San Jose, we'll be doing business elsewhere. The position of the city is pretty clear, unless land is on a transportation corridor or in a specific area it might convert. But by and large the industrial sites are gone.

We're building Village Square on the site of the old Lou's Village restaurant on San Carlos. The city wanted to clean up San Carlos, and the (property owners) Mullers wanted to move on from their family business. So we jumped in and we will build 95 townhomes.

I was born and raised in San Jose, and I like building houses in San Jose. I've got friends who need houses, but if that's the direction of the city there's not much I can do about it.

Q I've heard one of you assert that foreclosures will be a "blip on the screen" in Santa Clara County. Care to weigh in?

A Nyland: I'm not concerned in our markets.

When people see it in the newspaper every day, it does affect the market's overall strength. But while foreclosure rates are high in the Central Valley, I think the Bay Area is resilient. We're not getting impacted in the inner core counties like the outlying counties are.

Menard: It's touching Antioch and Richmond, but down here in the South Bay, it's not an issue of concern. The economy is strong, jobs are good and rates are down. We'll get to March and see that the world is not falling apart, and things will start turning for the better.

Q When do you think the market will recover — not to the go-go days of 2003-04 and early 2005 — but to a moderate pace?

A O'Connor: 2008 will be fairly flat in terms of sales numbers and pricing. In 2009, there will be more strength in the market. That's more of a global picture; we have pockets in the Bay Area that perform better.

Menard: There is pain in the

industry. The Bay Area is doing OK in relation to the rest of the country. Plus, there is an under-supply of housing. The big thing is the local economy is doing extremely well.

We all believe that if we haven't hit bottom yet, we will in a couple of months. Then this market will be right back in gear again.

For the South Bay market, we'll hit a moderate pace in spring of next year. Prices will flatten out and start to go up. We'll see a slow increase through 2008. In 2009, it will be a very good moderate pace. My only caveat is because it's an election year, that can affect buying decisions. People will sit on the sidelines.

Nyland: Will prices fall? It's the \$64 million question. It's hard to say. I'm reluctant to discount. In the future, there's not much new building planned, and I've got a valuable resource that I fundamentally believe in.

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