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Discounting helps home sales

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The beleaguered home building industry got a fleeting opportunity to smile on Thursday, with the release of a positive national report on September sales, but there was near carnage in the Midwest, where new-home sales fell to the slowest pace since September 1991, the government said.

The Commerce Department said new-home sales popped up an unexpected 4.8 percent last month across the country, though the number was widely regarded as a blip, churned by huge, short-term discounting intended to lighten the bloated inventories of homes for sale.

With one large home builder in the Chicago area, Neumann Homes of Warrenville, announcing this week that it would file for bankruptcy, analysts said the industry -- from the smallest to biggest players -- is clearly in for difficulty.

Big builders have been reporting losses and Standard & Poor's reports that the aggregate share price of the 30 publicly traded home building companies has fallen from about \$100 a year ago to about \$55.

"I'm not aware of anyone who is doing well right now," said Bert Ely, a banking industry consultant in Alexandria, Va., who agrees that builders' bankers are warier. "They're all reporting losses and scaling back activity."

Locally, industry observers said the financial pressure will likely lead to industry churn.

"We're at least going to see some consolidation," said Paul Nolte, director of investments at Hinsdale Associates. "Just as we saw it in the tech sector in 2000."

The Chicago market is a mix of independent and national builders who will close about 18,000 single-family homes this year, down from about 35,000 in the boom times of 2005, according to Chris Huecksteadt, director of the Chicago region of Metrostudy.

The region's top 10 builders accounted for about 5,900 single-family closings through the first three quarters of the year, compared with last year, when they closed 9,300, he said.

There's a 6.5-month supply of unsold new homes here, compared with a 5.5-month supply at this time in 2006, Huecksteadt said. That's better than the national picture, where there's an 8.3-month supply.

Christopher Shaxted, executive vice president of Lakewood Homes in Hoffman Estates, said the stresses can be managed by builders who understand the cyclical nature of the building industry.

"The guys who have good bank relationships and have thought ahead will weather the times," he said.



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"It's a matter of watching the store," he said. "If you didn't think the slowdown would happen and you're a builder, you haven't been in the business for very long."

Thursday's Commerce report may nominally be seen as progress in trimming overhang, estimated to be running 40 percent to 50 percent above historic norms. But most analysts said September was a temporary improvement that in part reflects extraordinary incentives offered by a few companies, particularly Hovnanian Enterprises.

Hovnanian, which does business in Chicago as Town & Country Homes, staged "The Deal of the Century" in September, a three-day promotion in 18 states that slashed prices as much as \$150,000.

Hovnanian says the event resulted in 2,130 sales, with 460 of them in Midwestern states.

But any improvement in sales figures is plagued by a surge in the rate of canceled contracts; some public builders have reported that half of all contracts lately fall apart.

In the Chicago area, signed contracts for single-family homes are down 30 percent from a year ago, said Lance Ramella, principal with Meyers Builder Advisors in Oswego. "Cancellations are officially at 7.3 percent, but it's hard to gauge accurately," he said. "It's probably really 30 to 35 percent."

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