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New home market shows signs of stabilization

By Misty Williams
Tribune

The Valley's new home market showed signs of stabilization last month with sales remaining fairly steady and developers taking out fewer building permits. Some 2,991 new homes were sold in September, a 34.18 percent drop from the same month last year, according to analyst RL Brown's latest Phoenix Housing Market Letter.

GRAPHIC: View Valley home sales and permits in September

Year-to-date, 28,666 sales have been recorded, compared with 37,128 last year.

Sales have been relatively steady in the past six months, however, ranging from 2,945 to 3,135 each month, the report released Tuesday shows.

"We consider that to be exceptionally good news," Brown said.

Builders taking out fewer home permits is also a positive sign, he said.

Some 1,309 permits were issued last month, down from 2,282 a year ago. That means builders may have stopped building speculative homes, which were adding to the oversupply, Brown said.

Area builders are also finding success in selling their homes by dropping prices.

D.R. Horton was one of the first to seriously reprice their products, he said.

"This last month, we saw pretty much even the laggards get on the wagon," he said.

"I think that's encouraging. It's obvious that the pricing surge of 2005 was not sustainable."

Many builders are also offering incentives, though the most effective sales technique is to reduce the monthly payment through either price cuts or buying down interest rates for consumers, Brown said.

The use of incentives will ramp up in the next few months as builders try to make their projected sales numbers for the year, said John Fioramonti, senior managing director at Meyers Builder Advisors in Scottsdale.

"They do really kind of insane things (in) the fourth quarter of the year to make sales happen," Fioramonti said.

The larger the incentives and price reductions, however, the more builders can weaken the existing home market because regular home owners aren't able to compete, he said. And that can end up hurting builders in the long run because a potential new home buyer can't make the deal if he can't sell his current home, Fioramonti said.

Brown added that some builders are looking to construct less expensive homes in the \$130,000 to \$250,000 range, like

those that are now being developed in Maricopa and other outlying areas.

"They're going to be smaller. They're going to have less of the frills," Brown said.
"But they're not going to be bad houses or lousy houses or poorly built houses."



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