MULTI-HOUSING NEWS

Sustaining Condo Profits in a Downturn

By Stephen Zadrick, CenterPoint LLC

NOVEMBER 06, 2006 – When sales start to slow and inventory sits unpurchased, it's a safe bet that homebuyers are feeling the pinch just as acutely as builders and developers. Dollars start to buy less than they used to. Before too long, new homes look less enticing to most buyers–and a downturn falls upon the housing industry.

When periodic downturns hit, sometimes with little notice, many developers are caught scrambling to react, instead of simply initiating Plan B, which has already been prepared. In today's volatile real estate market, there has never been a better time to make sure that strategies–such as the following–are in place for sustaining profitability throughout the next downturn.

Sensible pricing: For many builders and developers, the first instinct during a downturn may be to drop prices as much as possible to simply keep inventory moving and generate income. While there certainly may be situations in which this course of action is prudent, slashing prices can also be an incredibly shortsighted move. "Hold the line on prices," suggests Peter Garvin, vice president/division head for American Home Mortgage's National Builder Division. "Don't simply discount the sales price to move units. In addition to taking dollars out of the pocket of a developer/builder, you also run the risk of aggravating previous purchasers who have already bought at the higher price. Also, the appraisal industry becomes somewhat perplexed with what is the 'real' market value."

Instead of mindless slashing, a sensible and measured approach toward reevaluating pricing is most effective. There may be room for a pricing cut to give a project an edge over nearby competition, or to help boost a promotion temporarily, but cutting price too quickly and too drastically simply undervalues product. Smart developers will seek to add value to their project, not take value away. Turn on upgrades and buyer mortgage incentives without the high costs normally associated with this offering, or simply streamline the sales process to make the customer feel as appreciated as possible.

"The housing industry is fast on its way to becoming a commodity-based industry," explains Frank Guido, president and CEO of Aareas Interactive, a sales and marketing consulting firm for the real estate industry. "In this type of marketplace, one of the best ways to differentiate your product from a competitor's is to add value-enhancing services throughout the purchase process. Make a purchaser's experience as simple, easy and intuitive as possible and they will thank you for it through purchases and recommendations."

Marketing savvy: When a downturn hits, the marketing department is often the first place where developers seek to cut costs. Again, this is a shortsighted move that can, in fact, cost developers money, instead of saving it. Without effective marketing, sales will slow to an even greater crawl.

Marketing should not fall victim to cost cuts–instead, it deserves a savvy implementation to take full advantage of available funds and reach the right audience of buyers, those who may still be in the market for a home during the downturn and those who can be tempted back into the sales center with the right message and the right deal. In fact, the sales center itself may be due for a makeover that implements cutting-

edge technology and still brings down costs.
"Sales centers have traditionally been significant contributors to a project's overall expense," says Guido. "These high costs can be offset through the strategic use of visual sales aids, rather than a full-scale model. A popular strategy involves the construction of a single model, usually a best seller, and then substituting full-media options such as renderings and virtual reality presentations as supplementary sales tools for other models."

Marketing budgets should also remain robust enough to attract top talent to your initiatives. It can be a mistake to turn toward an inexperienced, if cheap, in-house solution, or a firm with low rates and a low success rate to go with them. "In order to be successful in real estate sales, you need to bulletproof your marketing strategy," says Joel Lazar, president of CMI Sales and Marketing. "A local broker usually is not wise to regional, national and international marketing and the programs and leaders that play in those areas. For peace of mind, seek out a high-performance real estate sales and marketing firm that has experience on the local, national and international markets."

Smart building: By now, a theme is apparent–the knee-jerk reaction is often not the smartest move to make in an effort to maintain profits during a downturn. Careful examination and strategy for every aspect of the business is vital, and the building arena is no exception. One often-overlooked resource for builders looking to save money and maintain quality during a downturn is China. U.S. builders can find many of the same products they are purchasing from stateside vendors in China, available at a fraction of the cost yet comparable in every other sense to their American counterparts.

There may also be a benefit in exploring eco-friendly/green building techniques, which can appeal to buyers as a way to save money on utility bills. From a developer perspective, environmentally conscious building underscores social responsibility and maintains a sense of urgency in protecting our environment by utilizing earth-saving, material-reducing, water- and energy-saving methods. This avenue also provides a built-in marketing angle by passing a commitment to the environment on to each individual buyer and making them a part of the bigger picture–Earth's Village–and its preservation.

Money management: Although instinct may dictate that cash is to be hoarded in a downturn, there is an equally valid argument to be made for strategic spending and investment in a time when costs may be down and a new project may be just the tonic a developer needs to boost profits and attract buyers. Many of these techniques involve a realistic approach to existing inventory. Remaining units can collect dust over months of inaction, or they can be used to fuel business–the product can be sold at a loss to generate capital for new acquisitions, or units can be traded to finance development costs at a more profitable location. A downturn may provide a unique opportunity to find deals that wouldn't be present in a more profitable marketplace.

"Hedging your ventures with creative financing sources such as group buying or bulk sales will create a tremendous velocity to market," suggests Robert Zankl, director of acquisitions for Bridgepoint Ventures. "It also helps move your capital into new opportunities."

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