

## The Oregonian

### **Glut of new homes suddenly gives Portland-area buyers upper hand**

**Incentives - Some builders offer trips and gift cards, and one broker will consider taking your old house as a trade-in**

Sunday, October 14, 2007

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The Oregonian

Three years ago, home builders in the Portland market worried about having enough supply to meet sizzling demand. Now, the region faces a glut of available homes -- a six-month supply for sale, translating to the biggest inventory in three years and an emerging buyer's market.

To stay in the game, builders are slashing prices and offering incentives such as trips and gift cards to clear out stock, leasing homes rather than selling them, and cutting back on building without confirmed buyers. Some also are slowing the pace of future projects, including a regionally significant effort to urbanize Pleasant Valley, partly annexed by Gresham.

That high-profile rural area, expected to absorb part of the region's predicted population growth in the next 20 years, might not see its first new homes until 2010 -- at least a year later than expected, builders say. The market simply won't support more houses there now.

"There's a lot of standing inventory and real price-point issues that are going to slow the pace of construction," said housing economist Jerry Johnson, who advises home builders and local governments.

For industry professionals, that means cautious next-steps, Johnson and others agree.

But for potential buyers who can meet stricter lending guidelines, it means the possibility of a good deal on a new home, sometimes with luxury perks. In Happy Valley, about 70 upscale homes built by Buena Vista Custom Homes are looking for takers. Average time on the market: three to four months, despite striking views of Mount Hood and Clackamas County, granite countertops and stone entryways. Some have sat empty for six.

"It's a great time to buy," said Don Johnson, a principal broker with Re/Max Equity Group Inc. and the listing agent for the homes, reportedly on track to have his best year ever in 2007 despite the market. "Just on Buena Vista alone, they'll knock \$20,000 off the price -- that's instant equity," he said.

And Johnson, who's having to work harder, said he'll even consider taking the potential buyer's home in trade.

"It's a good market, just not that 30-year-high market," said Mike Higgins, a spokesman for fast-growing Buena Vista. "Buena Vista's production has slowed, it's pickier on purchasing land, and looking for better deals from a developer standpoint. At some point, we'll be able to pass that (savings) on to consumers."

#### **Supply up, sales down**

Though Oregon's housing market remains solid compared with other parts of the nation, and Portland-area home values continue to appreciate, sales are noticeably down -- ask any real estate agent. In August, pending home sales in the Portland area dropped 18 percent compared with the same month during a hot 2006 season, according to the Regional Multiple Listing Service. Officials estimated it would take 6.2 months to sell 15,782 active residential listings at that pace.

In June 2005, comparatively, when houses sometimes flew off the market in a day, there was only a 11/2-month supply.

Builders and real estate professionals attribute the slowdown to a surplus of overpriced homes on the market and growing public uncertainty: uncertainty about the true value of their homes after years of dizzying run-ups, and uncertainty that those homes will sell quickly if they decide to trade up. They also point to tightening credit, resulting from a subprime lending crisis that gripped the industry this year.

As a result, companies such as luxury builder Renaissance Homes are ready to deal -- within reason -- to tempt skittish potential buyers into any of the 35 to 50 finished homes it has on the market in communities from Forest Grove to Clark County, Wash., to Bend, said Kim Whitman, the company's vice president of sales and marketing. He said the company's sales this year will be on par with last year but not as strong as projected, in part because of an unusually high rate of "sale fails" in 2007.

"It's just not as crazy as it once was," he said.

With some conditions, Lake Oswego-based Renaissance will "pay your mortgage for six months," Whitman said -- an incentive not often seen in a seller's market. "We are trying to combat the negative side of the market."

Both Whitman and Beaverton building official Brad Roast use the term "cautiously optimistic" to describe their outlook. In Beaverton, housing permits are still being issued, Roast said. "It isn't the boom days like we had three or four years ago; it's tempered, but there's still activity."

How lot developers and builders fare in an iffy market will depend on how they prepared themselves during the hot market, said Jim McCauley, vice president for government affairs for the Home Builders Association of Metropolitan Portland. "Those that had a conservative approach are going to weather this easier than others. . . . Others are going to be stretched."

Meanwhile, Katie Fellows' 3,100-square-foot, five-bedroom home on Southeast Dunbar Drive in Portland continues to sit on the market as it has for the past seven months, at an asking price of \$499,000. "We had an open house in September, and three people came, but there were no real nibbles," she said. "Our listing expired and we relisted it, but nothing really happened then either." Up the street, five or six brand new empty homes also languish in the subdivision. "I'd hate to be a builder right now," she said.

### **"Huge commitment"**

The downturn threatens to delay construction in Pleasant Valley right when Gresham's bid to urbanize it should be gaining steam. Some predict it could throw the first-phase home construction timeline off by a year, maybe two -- an unsettling prospect for public and private investors with money tied up in the 263-acre area.

It means holding back on construction of about 650 planned homes until the next upward housing cycle begins.

"Unfortunately, we aren't the real estate gods -- the market is what it is," said Cody Bjugan, owner of developer Pacific Landmark Development, based in Clackamas, one of the city's three private development partners. "It's too bad, because we've all made a huge commitment."

Pleasant Valley's 1,500 acres were brought inside the urban-growth boundary in 1998. It's the first and only large-scale, mixed-use area in the metro region to reach beyond planning to the design phase leading to construction. That puts it at the head of the pack of communities targeted for development -- years ahead of Damascus or North Bethany -- and perfectly positioned to get smacked by the effects of the subprime lending crisis.

"Unfortunately for the developers, they had a really nice window" for getting their product built, said Jerry Johnson, the housing economist. A year ago, Johnson's firm, Johnson Gardner, predicted 250 to 350 home sales annually in Pleasant Valley's first phase.

Now, with the market in flux, no one is sure how much demand to expect, especially since a pocket of houses built next to the valley are selling so slowly a couple have become rentals.

"It's almost like having a lottery ticket and not being able to cash it," said dentist Stan Bohnstedt, who anticipates selling his five acres to be developed when market conditions improve. For the moment, "it's like being in limbo," he said.

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