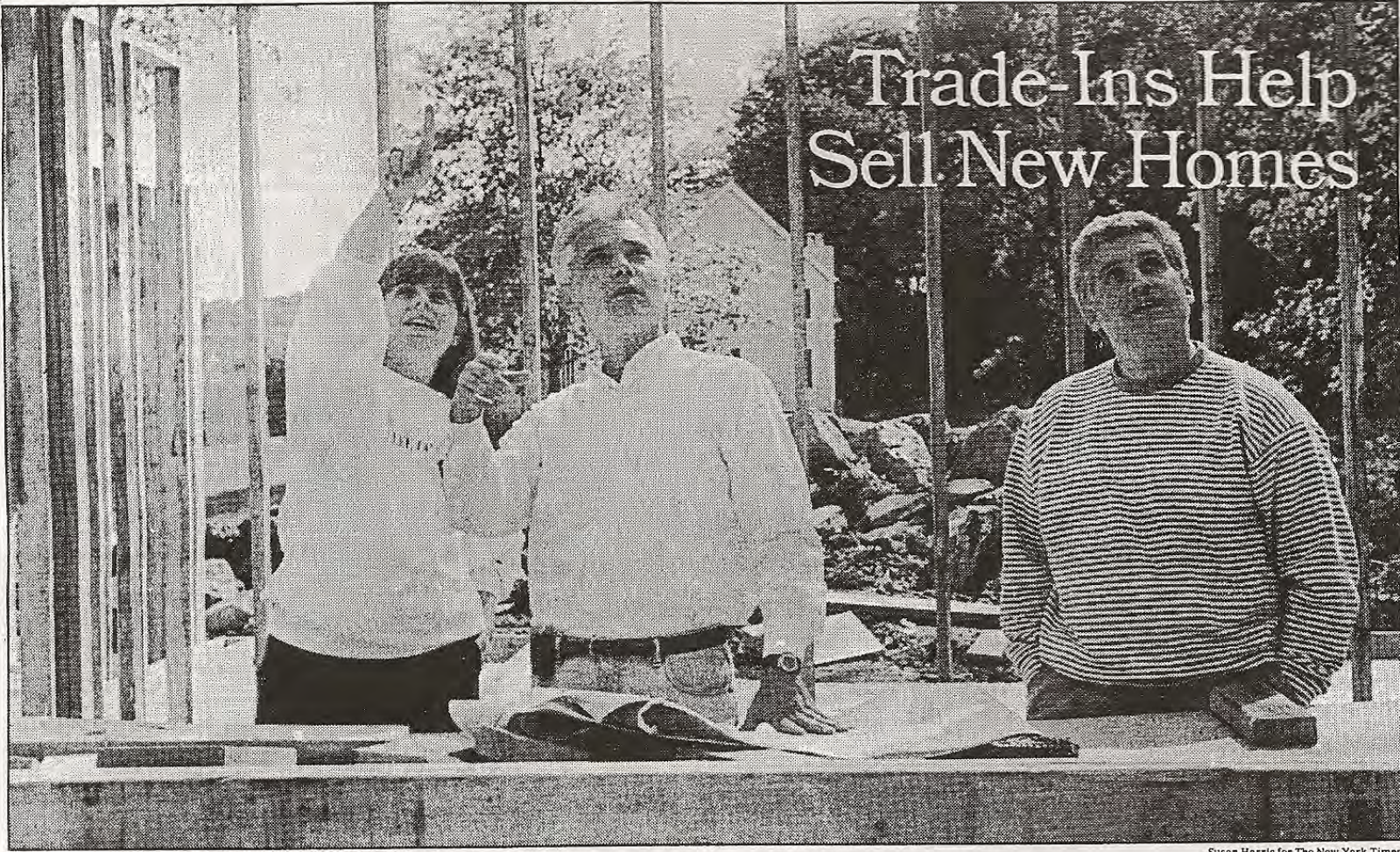


Trade-Ins Help Sell New Homes



Susan Harris for The New York Times

Developers Guarantee Purchase of Old Ones

By SHAWN G. KENNEDY

By early next year Stef and Linda Fogelson expect to be in the two-story French Provincial-style home they are building on a two-acre wooded lot in Chappaqua, N.Y.

The Fogelsons have not yet found a buyer for the home they now own and occupy, but they are not worried because the builder of their new house has agreed to buy their existing home if it has not sold by the time the new one is ready.

The company, Burton Garret Associates, a Briarcliff Manor, N.Y., developer that specializes in custom-built homes in northern Westchester County, has been making the same offer to all potential customers since spring. So far seven buyers have taken them up on it. "Selling an existing home is the main obstacle for most buyers these days," said Burton Rubin, a partner in Burton Garret. Mr. Rubin and his partner, Garret Avaras, figured that

the trade-in incentive, which is as common to car sales as tire kicking, was the best way to keep their build-to-suit business on track.

Burton Garret is not alone. Despite the risks of being stuck with an inventory of hard-to-sell homes, other developers also have embraced the trade-in strategy. It is yet another illustration of how home builders are adapting to the market and yielding more to buyers than they would in better times.

In upstate New York, Nelson Equities, of Manhattan, is also offering to buy the homes of people who sign contracts for new town houses in a complex under development on the shores of Lake Saratoga in Saratoga Springs. The site is the former Kaydeross Park. The company is trying to attract year-round residents to a partially-finished, 175-acre complex of 349 residences originally conceived as a vacation-home community.

Last year, East Crescent Developers of Cherry Hill, N.J., was able to move 16 single-family homes in a development of 268 town houses in Mahwah, N.J. by offering to buy the town houses of people who already lived in the complex, but who were willing to trade up. The gamble paid off. The company sold all the homes without buying back one town house.

On Long Island, Joel Chinman, a Hewlett developer, decided that, rather than slash prices, he would agree to

Linda and Stef Fogelson flanking Garret Avaras, builder, at the couple's house rising on a two-acre site in Chappaqua, N.Y.

pay 85 percent of the appraised value of the existing home of anyone who bought a residence in his Rockville Centre project, Lion Estates. Mr. Chinman said that in five deals he did not have to buy one house.

"In a few cases there were some creative financing arrangements that meant that we gave up some profit," said Mr. Chinman. "But it was worth it for the interest it stimulated in the project, and because we met our objective, which was to sell out."

Brokers say some of the builders and developers now making buy-back deals are not eager to advertise the fact.

"Some developers do it on a case-by-case basis," said Joyce Jones, a marketing consultant to Audrey Short Realty, in Princeton. "They cannot offer the deal to everyone and sometimes they have to take a loss."

Five years ago, when sales were robust, developers felt no qualms about building before buyers were found.

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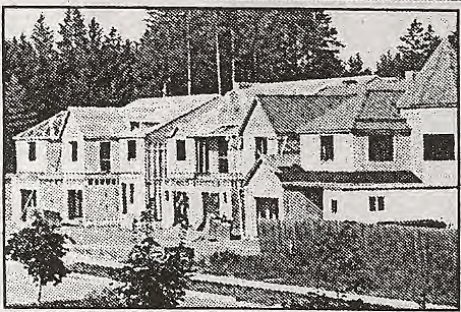
"Everything has changed," said Mr. Avaras. "Banks won't lend for speculative projects. Buyers are fearful of having two mortgages to pay. Even if they can afford to do it, most people would not make a commitment to us until their homes had sold."

But Ebie Wood, a vice president with Houlihan Lawrence, the Westchester-based brokerage company serving as the exclusive agent for the Burton Garret trade-in program, said there is one characteristic about the current market that is working in favor of the company.

"There are so few new homes for buyers to look at today," said Mrs. Wood, "Anyone who wants a new house has to find someone to build it."

If Burton Garret ends up buying any of its customers' homes, the expense will not come from the company's operating budget but from a capital pool established by a group of investors.

Robert Nelson, director of development in Nelson Equities, who is making the same offer to buyers of homes in his Saratoga Springs project, described his financial backer as an Albany-area investor and broker.



Jeff Serowick for The New York Times

Robert Nelson of Nelson Equities at building site in Saratoga Springs, N.Y.; some of the partly finished residences, inset, at development.

BUYER incentives are not new. When the residential market started its downward slide in the late 80's some developers, backed into a corner by a huge surplus of new homes or apartments, started offering flashy come-ons.

Trips to Disneyworld or other resorts, health-club memberships and savings bonds were some of the perks dangled in front of potential buyers.

But brokers, builders and buyers agree that in today's market, incentives must have real value in order to be enticing bait.

"You don't see the sweepstakes-type incentives much anymore," said Bill Higgins, who operates his own brokerage company, Prudential Higgins Realtors in Hillsdale, N.J. "People are looking for the type of give-back that will make a difference to their pockets. You are seeing things like bridge loans and free maintenance payments for condominium buyers."

Some of Burton Garret's customers acknowledge that without the trade-in they would not have signed contracts to start construction until selling their present homes.

"It is like having a safety net," said Stef Fogelson, whose Irvington home is on the market, priced in the mid-\$400,000's. "My wife and I probably could have handled owning two homes if it came to that, but it would

have made us very uncomfortable."

Jan Lederman, who has a tentative buyer for the home he owns in Briarcliff, is another Burton Garret client who was reassured by the trade-in program: "My wife and I really needed more space after our second child was born," said Mr. Lederman, father of two children, ages 18 months and 6 months. "We were looking at everything. But building from scratch would not have been an option without the arrangement we have from Burton Garret."

LENDERS who write mortgages for buyers holding these trade-in agreements have an additional layer of security because their customers do not need to worry that home sale deals will fall apart because their buyers cannot get financing.

The Burton Garret trade-in works like this: When the buyer signs a construction contract for a new house, a second contract is signed at the same time obliging the builder to buy the customer's existing home, at a fair

market price, if the existing home has not been sold by the time the new home has been completed.

The Burton Garret contract stipulates that the fair market price of a home it agrees to purchase is to be determined by an independent appraisal of the property. The company pays for the appraisal, but if the customer wishes to have an additional appraisal done he assumes the cost.

For the first 90 days of the contract period the clients are responsible for selling their home. They agree upon signing the contract not to list the home at a price higher than 12 percent above the appraised value. After the first three months Burton Garret assumes responsibility for the marketing of the home and has sole discretion in establishing the price.

If at the end of construction the home has not sold, Burton Garret takes title to the property, paying the seller the contract price.

If the home is subsequently sold for a price higher than the appraised value, the differ-

ence goes to the seller. But if the sale price is lower, Burton Garret absorbs the loss.

The deal Nelson Equities is holding out to potential buyers of its town houses on Lake Saratoga is similar but with more limitations. The company's trade-in agreement puts a value cap of \$150,000 on the homes it is willing to buy. Another requirement is that the home pass an engineering inspection.

When asked if sellers with homes valued higher than \$150,000 would be left out, Mr. Nelson said: "We would not rule out buying a home on which the appraisal came in higher than \$150,000, but we would be taking a closer look at the deal and make the decision on a case-by-case basis."

The new homes in Saratoga Springs are priced from \$175,000 to \$225,000. Mr. Nelson said that the incentives have been in place for less than one month and so far no contracts have been signed, but three are in the works.

Nelson Equities, which took over the failed Vista on Lake Saratoga complex last year after the original developers went under, is not relying on the home trade-in scheme alone to entice buyers.

The first phase of construction for the complex, where units had been marketed as second residences and investment properties, included an indoor sports complex, a 175-slip marina, outdoor and indoor tennis courts, a boardwalk and a private beach. The previous owners sold only 73 of 349 units planned before sales were halted and the lender, Norstar Bank, stepped in. Instead of foreclosing on the project, the bank negotiated with Nelson Equities to take over as the developer. The plan calls for 225 town houses and 124 detached houses.

WE knew from the beginning that if a reworking of the project was going to succeed, we would have to appeal to more than vacationers," said Mr. Nelson, whose company took over the project in June 1991.

The new owners hired Faulding Associates of Manhattan to come up with designs that would appeal to full-time residents. The new town houses will have larger master bedrooms, garages with space for two cars instead of one and basements, which the first residences did not get.

Mr. Nelson and his marketing specialist decided to employ the trade-in incentive after he noted that many potential buyers were making repeat visits to the project's sales office, but few were signing contracts.

"We weren't making any deals because people had other homes to sell," said Mr. Nelson.

The developers will be looking to Saratoga Springs as well as the Albany-Schenectady-Troy metropolitan area, for potential buyers.

If the trade-in program is not for every builder, it is not for every buyer either. Buyers must have the cash up front to make down payments without relying on the equity in their existing homes. Clients of Burton Garret, for example, have put down between \$100,000 and \$130,000 to start work on homes which are costing in the \$350,000 and \$650,000 range.

To smooth the way to financing, Mr. Rubin and Mr. Avaras have arranged for a lender to finance land purchase and construction of their clients' homes. The land purchase loans and the construction loans are converted to standard home loans when the new owners take title to their house. The company can also provide architectural, engineering and interior design services.

"The fact is," said Mr. Rubin, "we are no longer just in the building business. We are also in the service business. We will do anything we can to help a buyer build a house." ■