

INSIDE STORY

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20 **Make It Work**

HOAs wield strong influence over their communities, so it's in builders' best interest to work with them when they want to make changes to the homes they build to meet buyer demands.

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COMMENTARY AND ANALYSIS OF CURRENT EVENTS ■ EDITED BY JOHN CAULFIELD



UNCOVERING REVENUE STREAMS

Heavy Lifting

A Houston-based auctioneer helps builders dispose of model furniture.

IN YEARS PAST, WHEN BEAZER HOMES USA closed out one of its model homes, it disposed of the model's furniture by hauling it back to a 48,000-square-foot warehouse in Atlanta. "Oh dear God, you have no idea how inefficient that was," recalls Bonnie Hale, Beazer's director of design services.

But since 2005, Beazer has liquidated its model furniture and accessories through Builders Auction Co., a Houston-based business that conducts auctions for builders in their model homes. Hale says Beazer—

which as of late May had 270 models on the ground nationwide—has been calling on Builders Auction to handle between 100 and 160 auctions per year. In each of the past two years, Builders Auction returned \$1 million to the builder, Hale confirms.

Bruce Sutter, who started Builders Auction Co. in 1996, has been an auctioneer for two decades, first for a mortgage company's brokerage that resold foreclosures in Houston in the late 1980s, and then on behalf of North Carolina-based furniture manufacturers. Back then, a lot of builders

gave away their models' furniture to employees or to charities. "They looked at it like a lost asset," he says. Now, Builders Auction does more than 400 auctions per year and counts among its clients many of the industry's largest production builders, including Meritage Homes, Centex, David Weekley Homes, Toll Brothers, and D.R. Horton.

Builders Auction is a full-service provider: It promotes the event by targeting the surrounding community, usually via door hangers. The company (see page 20)

has 6,000 members who pay \$30 per year to receive e-mails and direct-mail notices about auctions. His company prepares a catalog that lists what's for sale and posts those items on its website. Customers pay with a credit card and haul away the stuff themselves.

The auctioneer charges buyers 15 percent over the tagged price of the item and doesn't accept returns. What it charges builders varies and includes a relatively modest marketing fee.

Most builders give Builders Auction at least two weeks' lead time after they sell a model to conduct the resale. "But we've done them with one day's notice," boasts Sutter. Hale says Builders Auction organized one auction for Beazer in three days, after an owner of a leaseback went into foreclosure "and we had to get the furniture out of there."

The quality of the products being resold is certainly a factor in an auction's success. (Sutter says that builders usually

rotate furniture through three or four models before they liquidate it.) Accessories "tend to bring in a high price," says Sutter, "sometimes retail or better." But there's little demand for "faux antiques" or "turn-of-the-century-looking stuff," and even less for entertainment centers, with the growing popularity of flat-screen TVs.

What production builders recoup through auctions can also depend on what they spent to furnish their models, which

is often guided by the house's price. Hale says that, on average, Beazer recaptures 20 percent to 25 percent of its investment in model furniture. Sutter provides this hypothetical example of return: If a builder spent \$25 per square foot to furnish a 3,000-square-foot model home, an auction might raise between \$17,000 and \$20,000, of which the builder would get around 70 percent. That's "considerably better," he says, than the \$3,000 per model one of the industry's top five builders recaptures by using a consignment house to liquidate its furniture.

Sutter estimates there are about 100,000 model homes in the U.S. He's noticed, though, that builders are opening fewer of them lately. So Builders Auction bumped up its advertising to raise its profile. Sutter is confident that "there will always be model homes," and that more builders are receptive to furniture and accessories auctions as "hidden sources of income."—*J.C.*



GOING ONCE ...: Bruce Sutter, owner of Builders Auction Co., at one of the hundreds of auctions his company conducts in builders' model homes every year.

COMMUNITY DEVELOPMENT

Guard Dogs

Can homeowner associations help builders create more marketable neighborhoods?

KB HOME RECENTLY FOUND OUT that controlling HOAs doesn't always provide cover from owners' wrath when the builder wants to inject smaller houses into their communities.

At its Kenion Grove subdivision in Hillsborough, N.C., owners balked when KB began offering spartan 3,000-square-foot houses for half of what owners there had paid three years earlier. And responding to owner complaints, the Texas Residential Construction Commission initiated an investigation of KB's advertising for several communities in San Antonio, where KB wants to build lower-priced homes to meet buyer demand.

KB has been defusing these disputes by

we've had to get everyone into the process," says Vince DePorre, KB's regional president in Jacksonville, Fla.

HOA boards, whether builder- or owner-controlled, are rarely the most popular kids in town, especially when they're sending out foreclosure notices over delinquent dues or blocking the installation of solar panels. But their influence is undeniable, with roughly 60 million people living in 300,000 HOA-run communities. Two leading property managers suggest that HOAs could serve as liaisons for builders that want to alter their community's vision to meet buyer demand.

Melinda Masson, president and CEO of The Merit Cos., an Aliso Viejo, Calif.-based firm that manages more than 250

agreeing to make architectural and design changes to its new homes. "As we've made product moves over the past 18 months,

communities, doesn't believe HOAs can legally prevent a builder or developer—the "author" of the community—from building what it wants to. She also doesn't accept the proposition that smaller, more-affordable new homes necessarily diminish the value of a community's existing homes. But Masson says builders need to explain the "why" of their subdivision when they request changes. "The challenge for the builder is to keep management at the table," said Masson.

Steven Blumfield, vice president-operations of Wentworth Property Management's Lifestyles division in West Long Branch, N.J., which operates in 13 states, says well-written "declarations" that tie a subdivision's ground to the association will include square footage minimums but also leave wiggle room to make production changes in midstream. "Communication is the key. The developer's and the community's interests aren't mutually exclusive."—*J.C.*

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