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## Home Builders Are Piling on Discounts

**Demand during the spring buying season has been disappointing, and tariffs threaten to raise costs**

Would a \$5,000-off voucher entice you into buying a new home?

**Builder Taylor Morrison**

launched an email campaign this spring sending this offer to prospective house hunters. The discount is meant to offset President Trump's tariffs, which are expected to push up prices for new homes soon.

It is the latest profit-sapping endeavor that American home builders have resorted to in a sluggish market.

The spring buying season, when builders make close to 40% of their annual sales, is halfway over. Based on earnings released by listed builders, demand has been disappointing. America's biggest builder, **D.R. Horton**, said revenue fell 15% in its latest quarter compared with a year ago, while **PulteGroup**'s



sales dropped 2%.

*- on, will they*  
This is before the pain of tariffs is really felt. Builder **LGI Homes** said this week that its suppliers sent notice that they plan to raise prices soon for some components imported from China. Builders rely on Chinese manufacturers for white goods, parts for heating and ventilation systems and porcelain fittings.

D.R. Horton and **Lennar** told investors that their building-materials providers are holding fire for now, but they expect import levies to push up construction costs later this year. Builders think new-home prices will rise by anywhere from \$5,000 to \$15,000 as a result of the trade war.

The timing is terrible. Affordability is already so stretched that builders have been offering sweeteners including mortgage-rate buydowns, price cuts and design upgrades to get deals over the line. The number of completed but unsold new homes sitting on their lots has reached the highest levels since 2009. \*

In a "completely abnormal" trend, home builders have increased their use of incentives this spring, according to Rick Palacios, head of research at John Burns Research & Consulting.

They offered sweeteners equivalent to 7.2% of the home purchase price in the first two weeks of

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April, up from 6.1% in January, data from John Burns show. Usually, they dial back incentives and raise prices this time of year.

Unless mortgage rates fall soon and bring buyers off the sidelines, builders think incentives will remain high for the rest of the year. This would hurt profit margins.

Mortgage rates are currently stuck around 7% and recent volatility in the bond markets isn't helping matters. Holders of mortgagebacked securities demand more compensation when rates are yoyoing, as it is harder for them to price the risk that a home loan will be refinanced and paid back early.

Entry-level buyers also look tapped out. They are finding it increasingly hard to qualify for home loans at current house prices, even with large builders' lending arms willing to offer them sub-5% mortgage rates. This is tricky for builders such as D.R. Horton, Lennar and **Meritage Homes** which rely heavily on the starter-home market.

Baby boomers, who have been quite active in the new-home buying market, are also growing cautious. In the first two weeks of April, buyers age 55 and older needed incentives equivalent to 8.3% of the price of a home to take the plunge, a 1.6-percentage-point increase since January. They may have been spooked by recent stockmarket volatility that singed their retirement funds.

Competition from existing homeowners putting their properties on the market also is rising fast in Sunbelt states, where home builders have most of their unsold units. This will make it even harder to sell excess inventory. Lennar is currently offering incentives equivalent to 19% of the purchase price to buyers in its South Central region, which includes Texas, Kansas, Missouri and Oklahoma.

Major home builders' stocks are down around 40% over the past six months. In the long term, builders should still benefit from America's chronic housing shortage. Firsttime buyers are priced out of the market for now, but their desire to own a home hasn't gone away. As soon as homeownership becomes affordable again, pent-up demand should boost sales.

But until mortgage rates fall, builders' profits will remain under pressure. Home hunters should keep an eye on their inboxes for deals. Builders will be spending more money than usual to tempt them off the sidelines.

—Carol Ryan