

Bankrolling Home Tech

Home-tech options can be among the most costly upgrades to any house, but lending institutions have a variety of programs to help builders—and homeowners—finance them.

by Leslie Stevens

Most homebuilders realize that by selling technology upgrades they can earn additional profits—sometimes very sizeable profits. The tech-active builders are learning where to find qualified dealers and installers and how to work with them, and they're helping homebuyers understand the cost savings of installing technology during construction. ■ But that's only part of the process when seeking the best financial returns on home-tech investments. It starts by educating homebuyers on the affordability of home-tech options and the long-term financial benefits to the house value. ■ Experienced builders know that buyers have a price range in mind for what they can and will pay for a home, including all their options. The challenge with selling home-tech features is that they can get costly, and they are competing against more traditional options—such as cabinetry and countertops. ■ As a builder, you know how the affordability game works with buyers. Rarely are they locked into the firm price ceiling they claim. Instead, homebuyers tend to have a spending comfort zone with respect to their performances.



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They may also not know about one important feature ... financing home options. Builders can help buyers feel comfortable with adding home features into their mortgage by providing buyers with financing direction.

PREFERRED LENDERS OFFER BENEFITS

There are several paths a builder can travel when helping homebuyers finance their homes and technology upgrades, but one path that everyone seems to agree on is that the use of a preferred lender has advantages. Here's how dealing with a mortgage bank as your preferred lender can provide significant benefits.

"There are many valuable reasons to use a preferred lender," says Rachel Van Betten, director of business development at Charter Funding in San Diego, Calif. "First, there is a direct monetary benefit to builders when mortgage costs are reduced because buyers will spend more on options. Secondly, by dealing with a preferred lender that is a mortgage banker vs. broker, the builder can be confident that 'loan approvals' are truly that. Thirdly, a banker has far greater control over the closing process and is ensured that closing dates will be met."

Van Betten adds, "Another important reason for preferred lenders that shouldn't be overlooked: Preferred lenders understand the typical profile of the builder's buyer. For example, if the homes are considered 'step-ups,' buyers are typically more comfortable with a mortgage than first-time buyers. With that, they may be more open to aggressive financing, such as interest-only loans or option arms. This program would enable

Builders using preferred lenders that understand the market will have an advantage in their ability to finance electronic options in their buyers' mortgages.

them to finance additional upgrades because their purchasing power would increase dramatically."

To add to the point above, consider the case of a multi-dwelling unit (MDU). Homebuyers might not be able to move into their new home for 18 to 24 months. The preferred mortgage lender may then offer these homebuyers a forward rate lock, which is particularly important in today's market.

CUSTOM HOMES ARE DIFFERENT ANIMALS

When it comes to custom homes, buyers often have the financing confirmed before approaching the builder. When that is not the case, builders should be prepared to refer their clients to a lender for a "construction to permanent" (CTP) loan.

"CTP loans are like a line of credit that custom homebuyers typically finance," says Roger McMillan, national sales manager in the home construction lending division at IndyMac Bank in Pasadena, Calif. "Our builders will send their buyers to our Web site to prequalify. Our Emits software program delivers the results of the request within two minutes."

Continues McMillan, "The builder tells us what needs to go into the loan, including a detailed breakdown of all upgrades. We then produce an analysis of how each upgrade relates financially to the rest of the project. Skilled builders will compare the cost of installing technology upgrades today versus the cost

of tearing holes in the walls later. Furthermore, we get the home appraised to see what it will be worth in the future, with and without the optional upgrades. Once everything is approved, the homebuyer can request online disbursements 24-hours a day."

OPTIONS CENTERS CAN PASS ON SAVINGS

Builders can leverage the options center in a number of unique ways, which in turn enable buyers to select additional options.

"Giveaways have become a popular source of incentives, such as cash that can be used towards closing costs," says Van Betten. "However, builders can reduce this expense by getting creative. For example, builders can offer a credit at the design center when utilizing the preferred lender. The builder's out-of-pocket expense for this credit is essentially reduced since the builder already has margins factored in. Furthermore, this program pushes people to the design center, where they usually end up spending more money."

A second approach through the options center is by making technology a standard, as opposed to an option.

"By doing this, builders will find that less time needs to be spent with buyers selecting options, effectively reducing costs," says Tim Wilcox, vice president of home electronics dealer and installer JWE in Irvine, Calif. "There are other ways to reduce the builder's expenses, which can be passed on to the buyer. For example, if the dealer offers prepackaged



Explain to customers the cost savings of making home-tech decisions during framing.

technology solutions, this eliminates our design time. And in other cases I've seen, dealers will offer pre-negotiated rates to homebuyers who have been referred by builders."

Another way to leverage the options center in an effort to sell more electronic upgrades is to essentially "rob Peter to pay," according to Bill Kelso, senior officer of construction lending at Chase Manhattan in Newport Beach, Calif. "Builders should train the options center personnel so that they can help buyers choose between landscaping and technology ... that's if they can't afford both. Have sales personnel to explain that it is more expensive to wire the house and cut holes in the walls after the drywall goes up, than it is to

HIGH-RISE CONDOS PRESENT TECH FINANCING CHALLENGE

One of the first luxury high-rise projects is now going up in Orange County, Calif. Builder and developer, Opus West, which is well entrenched in commercial development, has expanded into the residential market and embraced home technology in the process.

"Our main purpose for adding technology is to provide homebuyers with an opportunity for a better lifestyle. And of course it costs them less if they install it before the drywall goes up," says Matt Montgomery, senior manager for real estate development at Opus West in Irvine, Calif.

Opus West is prewiring for audio to certain locations in every unit, which is dependent on the floor plan. Each homebuyer will have the opportunity to select from a full gamut of electronic upgrades.

The model was designed to showcase electronic upgrades that a homebuyer can purchase. Guests who tour the model will encounter music emanating from SpeakerCraft speakers in every room. They will also be presented with SpeakerCraft's EZ Pads, which are key-

pads that enable the homeowner to control the whole-house audio/video system from any room. Furthermore, SpeakerCraft's SoundSource, an in-wall CD player, is featured in the second bedroom, illustrating the different electronic options a homebuyer can purchase.

When it comes to helping homebuyers with their financing needs, high-rises are inherently different than most other projects. Homebuyers typically purchase their homes today, but don't move in until a year or two later. With this time lag, preference for technology options sometimes change, which affects the purchase price of the home. Thus, if interest rates go up, many homebuyers won't want to purchase as many options.

"We work with Countrywide (a mortgage service provider) because they are experienced in high-rise condos," says Montgomery. "They offer our buyers a 14-month rate lock, which is better than many other lenders offer. This is particularly important now as interest rates are favorable, thus enabling our buyers to purchase more electronic upgrades."

landscape the yard after they have moved in.

"It is also important to ensure that the options center staff is well educated on the expected future value of the home. They need to help homebuyers understand that an electronic home is worth much more than a home without technology. They can also send the homeowner in the direction of an appraiser for additional confirmation," says Kelso.

MANUFACTURER SUPPORT IS AVAILABLE

Many manufacturers want to sell their electronics through the builder via the dealer, so they're willing to offer discount programs that benefit you.

"Most equipment manufacturers offer model home programs. Furthermore, they'll support the homebuyer by giving extended terms to the dealer,

"The builder tells us what needs to go into the loan, including a detailed breakdown of all upgrades ... Skilled builders will compare the cost of installing technology upgrades today vs. the cost of tearing holes in the walls later ... We get the home appraised to see what it will be worth in the future, with and without the optional upgrades."

— Roger McMillan, IndyMac Bank

who is supposed to pass it along to the builder, and then you to the buyer," says Randy Wilson, president of Wilson Home Theater in Woodland Hills, Calif.

Manufacturers are not the only source that builders can turn to for discounts. According to Ron Zimmer, president of the Continental

Automated Building Association (CABA), "Some teleos (telephone service providers) are offering free fiber to the home. This serves to increase the value of the home without adding to the cost. The builder can then pass on these savings to the buyer. With this free installation, buyers feel more compelled to purchase upgrades."

INTEGRATORS CAN HELP

There was once a time when dealers would "deck-out" the model and prewire all the homes at a reduced cost. However, as prewiring is becoming more expected by homebuyers, dealers don't feel the need to discount their time anymore.

Still, dealers can help you in other ways, such as thorough marketing that promotes technology upgrades to buyers.

When selecting a dealer, you should be prepared to discuss the entire upgrade program with them. This includes outfitting the model home, the prewire package, optional upgrades, margins and the marketing plan. If you're building anything outside a custom home, some marketing ideas you could discuss with them include:

- Custom literature—This is not the general company literature that a builder traditionally leaves in the model home or options center, but a dedicated piece that addresses ways to finance upgrades.
- Direct mail—Consider a campaign to buyers that promotes your homes and the affordability of the electronic lifestyle.
- Public relations—The dealer could launch a press campaign which focuses on financial affordability.

The sooner you can help your buyer understand how they can afford technology upgrades, the sooner you will add profits to your bottom line. **THE**

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LENDING INSTITUTIONS

Some companies available to finance home technology purchases and installation:

Countrywide

800-262-4212

www.countrywide.com

Washington Mutual

866-926-8372

www.wamu.com

Charter Funding

800-400-8171

www.charterfunding.com

IndyMac Bank

800-669-2300

www.indymacbank.com

Commercial Capital Bank

888-True-411

www.commercialcapital.com

Chase

949-263-7033

www.theconstructionleader.com

