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**APPLIANCES:** Will and Layla Fritz of Fullerton discuss ordering a dishwasher with sales associate Rick Maly.

JEBB HARRIS The Orange County Register

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## Home stores react to homes not selling

### Retailers that cater to homeowners respond in different ways to a sluggish housing market.

By HANG NGUYEN  
The Orange County Register

Maria Cordova, a 47-year-old housekeeper, was thinking about tapping into her home equity to add a fourth bedroom and second bathroom to her Santa Ana home.

But that plan evaporated when Cordova watched local home sales slow to a crawl.

Scenarios like Cordova's and other effects from the chilly housing market represent lost dollars for home-related retailers. Recently, big national chains like Wal-Mart, Home Depot and Sears blamed housing woes when reporting weak sales in their home divisions. Locally, some furniture stores have closed for the same reason.

Falling home sales mean fewer people buying items to decorate their newly purchased residences. Also, when those market sales slumps evolve to include cratering home prices (not yet a huge problem in Orange County), there's less equity to tap into to finance home upgrades. And, on a psychological level, a generally crummy housing market makes homeowners hesitant to spend money on sprucing up their abode.

Yet, despite the housing slump, a number of home-related chains are opening stores and even thriving in Orange County.

Anna's Linens, a discount home furnishings chain headquartered in Costa Mesa, is altering its business model, including offering even more aggressive pricing, to help offset the negative impact from the housing market. As a result, Anna's said first-quarter sales were strong and better than expected, prompting it to plan a new store in September in Lake Forest – its first new Orange County location in about four years.

And Home Depot, which has said its sales, nationally, are sliding, has added two local stores, in Lake Forest and Irvine, since last November. Its big rival, Lowe's, just opened a store at the new shopping venue The District at Tustin Legacy.

"The larger (home stores) with deep pockets will take a gamble," said Jack Kyser, chief economist with the Los Angeles County Economic Development Corp., which also covers the Orange County retail landscape. They want good store locations. So they're willing to ride out a slump for a future return on their investment.

A key to this counter-trend is the category of homeowners hunkering down. Folks who've been in their homes a long time, and who can't get a price they want for their houses, are staying put and spending some equity to make their homes nicer.

DirectBuy hopes to capitalize on that. This month, in Anaheim Hills, it opened a 20,000-square-foot home design center and showroom offering merchandise like kitchen appliances, flooring and lighting at wholesale prices.

## **FURNITURE STORE CLOSES**

Last month was the slowest home-selling June in two decades for Orange County. The median price rose a smidge from a year ago, creating a new record price, according to DataQuick. But some real estate experts say the record median home value likely was a distortion caused by the drop in sales and a lack of buyers for lower-priced homes.

As a result, June retail sales at U.S. furniture and home furnishings stores fell about 2 percent from a year ago, according to the Department of Commerce. Furniture stores have been the hardest-hit because furniture is expensive and not purchased often, said retail expert Kyser.

"My coffee table and couch came from Bullock's, a name long gone," he said.

Brian Glabman owns Glabman Furniture, a 108-year-old, four-store chain based in Costa Mesa that sells high-end pieces.

He will soon close his 42,000-square-foot Costa Mesa store, the only Orange County location. The clearance sale will start Aug. 7.

His business was hurting even during the last housing boom. He said a lot of homebuyers a few years ago were investors flipping houses, and they weren't furnishing them.

Glabman thought sales would pick up in a soft housing market. In past housing slumps, Glabman Furniture saw people stay in their houses instead of selling them, and spend money in sprucing up their abodes.

But this time – so far – things have been different. He believes that because the slowdown in the high-end housing market (the segment Glabman sells to) happened quickly, his customers turned wary of spending on their homes.

"The buying habits of consumers are changing," Glabman said. "What we're doing here in Orange County no longer makes sense."

## **NEW BUSINESS MODEL**

Cordova, the housekeeper, is skittish as she watches home sales and prices fall.

"We're spending less," she said. "We're buying just what we need."

She needs new window blinds and, on a recent afternoon, she stopped by the Home Depot in Santa Ana, and then at a nearby Anna's Linens, to compare prices.

"I go here and there looking for deals," she said.

She'll take the Anna's Linens blinds because they're cheaper. Aggressive pricing is one strategy Anna's is employing to offset the negative housing impact on its business. It also recently started expanding its merchandise mix by carrying the Veratex bedding and bath brand. The same Veratex comforter set that goes for \$299 to \$399 elsewhere sells for \$99 at Anna's, said Scott Gladstone, chief operating officer.

That new Veratex ad ran on television, a marketing medium Anna's entered late last year to reach a broader audience, including Macy's and Pottery Barn shoppers who are pinched by the slowing housing market. The TV ads are working, including in Orange County where the Anna's brand awareness is low, Gladstone said. The 250-store chain only has five locations here.

"We're seeing a lot of south Orange County residents driving up to our store in Santa Ana," said Gladstone, explaining why the company will open its first south Orange County store.

Gladstone declined to give specific numbers for the privately held company, but said business is good. If the company didn't change its strategies, he said, "Anna's would face a difficult retail environment."

It isn't the only retailer changing how it does business.

Macy's home division hopes to fuel its furniture sales by selling food. The South Coast Plaza Macy's Home Store in Costa Mesa is looking to add a Frontera Fresco by chef Rick Bayless, Cat Cora BBQ and a Burger Bar from Marcus Samuelsson.

## **LONG-TERM VIEW**

Earlier this month in a Home Depot conference call with stock analysts, Carol Tome, chief financial officer, said the housing "correction may take longer than we originally anticipated. But we're going ... to invest into this cycle because we believe that when the (housing) sector turns around, we'll emerge even stronger."

Pier 1 Imports has been struggling because of the weak housing market and its own missteps in marketing and merchandising. As a result, the retailer closed about 60 stores in fiscal 2007 and last month said it would shutter another 100 or so stores in fiscal 2008. (It's unknown whether any local Pier 1 stores would disappear as part of the company's planned closures.)

But even as it was planning those cuts, Pier 1 opened its 13th and 14th stores in Orange County, in Lake Forest and Mission Viejo last year. The chain's thinking, spokeswoman Misty Otto said, was "We felt our stores would do well in those markets." Like Home Depot, those new local Pier 1

stores are part of the company's long-term growth plans.

Phil Voorhees, senior vice president of CB Richard Ellis Newport Beach, who represents shopping center investors and developers, said that for retailers, the county's diverse economy, lack of land and growing and concentrated population outweigh temporary changes in the housing market.

"With major chains like Home Depot and Lowe's, two- or three-year (housing) cycles don't matter to those big guys." They're thinking "If we don't get in now, we might not get in the future."

## THE BARGAIN CARROT

DirectBuy says there's demand for a second local store selling merchandise at wholesale prices.

"Even though new-home building in Orange County and the rest of the nation is slowing, the median home prices are holding. ...Many people are instead choosing to use some of their home equity to remodel and refurnish their existing homes," said company spokeswoman Sara Shragal.

Will and Layla Fritz are yet another type of customer fueling sales at DirectBuy.

On a recent afternoon at DirectBuy's Anaheim Hills showroom, the couple spent \$4,000 on a refrigerator, dishwasher, washer and dryer for their newly purchased home in Fullerton. They were able to afford those new items specifically because of the housing slump. The home they bought was discounted about \$50,000, they said, because it was near the brink of foreclosure.

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