Small Builders: A Progress Report

A group with diverse skills and common problems is doing pretty well, thank you

by Don Best

During the darkest days of the 1982 recession, it looked as though the small custom builder was headed toward extinction. Only the Big and the Very Big would survive, some pundits proclaimed. The little guy would go the way of the blacksmith.

But small builders are a scrappy lot. Instead of rolling over and playing dead, they bounced back from the recession and reasserted themselves as one of the most vibrant groups of entrepreneurs in America.

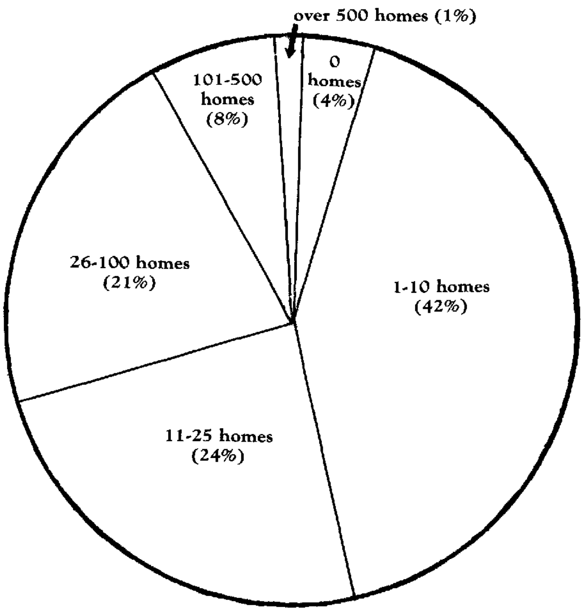
"Most small builders are thriving, especially in New England," says Karen White, director of the membership marketing department at the National Association of Home Builders (NAHB). She points out that 70 percent of NAHB's current builder members are small-volume builders who construct fewer than 25 residential units per year. "The number of small builders has been growing steadily every year since the recession ended," she says. "I think their future looks bright."

As far as New England builders are concerned, these are the days of wine and roses. The region's economy is so supercharged that some builders are turning away more work than they're accepting. Many find themselves in the luxurious position of being able to pick and choose the projects they find most appealing.

But, ironically, good times can cause headaches too. Five years ago, small builders were worried about having to lay off their ace carpenter; today, they fret over finding enough good help.

Ron Smith, owner of Custom Built Homes of Windham, Maine, says he's unable to hire the laborers he needs, let alone find skilled craftsmen. His company does about $6.5 million in annual sales, split evenly between single-family houses and attached housing. "Two years ago we were paying $3.50 an hour for laborers," says Smith. "Now we're offering $6 to $7 an hour and we still can't find the people we need."

Size of New England Builders



In 1985, NAHB surveyed its 2,795 builder members in New England. Seventy percent of those who responded said they had built 25 or fewer single-family homes during the year. The largest segment—42 percent—built from 1 to 10 homes. The next largest group built 11 to 25 homes.

In Rhode Island, Michael Smith, head of M.F. Smith Associates, says that "labor problems" prompted him to form a joint venture with another builder who has a bigger crew. "Attracting good help and keeping it has been one of my biggest business concerns," he says. "My subcontractors are all stretched out, too, which makes it rough scheduling work."

If inflation and high interest rates were the bugaboos of the recent past, the predominant worry of the future will likely be labor. In fact, every one of the dozen or so small builders interviewed for this article, hailing from every comer of New England, said they were experiencing labor problems.

"The builders who control the labor market over the next five years will control the building market," says Walt Stoeppelwerth, publisher of Home Tech Publications, Bethesda, Md.

Stoeppelwerth, who conducts 100 seminars a year for builders and remodelers, notes a profound change in the demographic makeup of the labor market. "America is moving out of the period when the baby boomers came of age and entered the labor market in droves," he explains. "Now we've got a baby bust on our hands and that means there's going to be intense competition for scarce labor in the years ahead."

In New England, where good times have pushed the unemployment rate below 4 percent in some areas, builders aren't just competing against other builders when it comes to getting good help; they're competing against high-tech firms, health-care companies, and prosperous service industries that are sometimes able to offer better wages, better job security, and more attractive fringe benefits.

So what can small builders do?

"Whether they like it or not, small builders are going to have to spend more time attracting, training, and motivating employees," says Stoeppelwerth. "My advice is to make sure you charge enough money on jobs to pay your people well. Get them involved in the business by giving them plenty of responsibility and sharing your goals with them. Make them into career employees if you can." Last but not least, Stoeppelwerth recommends that builders set aside one percent of annual sales for recruiting and training new people.

Real-Estate Prices: Up, Up and Away

Another by-product of boom times in New England is soaring real-estate prices, which can be both a blessing and a curse.

Some small builders say that higher prices have enabled them to fatten their profit margins over the past couple of years. Others complain that the rising cost of labor, insurance, materials, and overhead has offset the higher prices they charge, resulting in a bottom line that isn't much improved. Moreover, builders who do a lot of spec work are finding it increasingly difficult to locate good lots at a reasonable price. The closer you get to the metropolitan hubs of Boston and New York City, the higher the land prices are and the more pronounced the problem becomes.

John Spero, a builder from the Boston suburb of Harvard, says he likes building homes on spec because it gives him more control over the job. But he adds that lot prices in his area have skyrocketed over the past five years from $30,000 to $150,000—a 400 percent increase. "I try to sniff around and find good land deals," he says. "But it's harder now. One of the big reasons the price of my houses has gone up so much is because of the cost of land."

Michael Strada, a principal in Strada & Klien Builders of Edgartown, Mass., finds himself in a similar situation. His company grosses about $750,000 a

How Big is Big Enough?

A recent NAHB survey turned up an interesting fact. It seems that many small builders—particularly those who build fewer than ten houses a year—are content to remain just that: small. They say that being small enables them to maintain the personal touch in their work, which might not be possible if they expanded.

Builders who do 10 to 25 units a year are generally more ambitious in this regard. The survey showed that builders in this group more often aspire to increase their volume.

Should you expand or not? It's a tricky question.

Walt Stoeppelwerth, publisher of Home Tech Publications in Bethesda, Md., says that small builders can grow too fast for their own good and end up in deep trouble. Ambitious builders face an especially dangerous period of transition, he says, when they move beyond $500,000 in annual sales.

"Between $500,000 and $1.5 million, you're in never-never land," says Stoeppelwerth. "At $500,000 or less, small builders can pretty much work out of their heads. After that, they have to put what's in their head down on paper and start hiring people to help manage things. At that point, it's easy to outgrow your managerial skills and wind up in trouble."

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Successful expansion may bring vast riches to an aspiring small builder, but some of the niceties of being small usually vanish in the process. For those of you who covet bigness, consider that:

- Being big means you won't be able to rely solely on word of mouth to generate new business; you'll have to learn how to *market:* develop model homes, hire a sales force, purchase media. Yikes!
- Being big, you'll find yourself saddled with an unhappy ratio of paperwork to site work; there goes your tan.
- And being big, you'll be too busy to get personally involved with your clients; no more hobnobbing with those special customers whose company you enjoy.

Think about it. ■

—D.B.

year from custom home building and remodeling work. Some of the houses are built on spec. "The price of land here, especially mid-scale lots, is appreciating a lot faster than it is for houses," says Strada.

Material Concerns

With a couple of exceptions—cedar clapboards and drywall—the boom times haven't caused materials shortages in New England. In part, this is because of soft demand in other regions of the country. When shortages loomed in New England, materials could be transported here in short order.

The ongoing shortage of cedar clapboards can be attributed to two factors. First, over the past two years it's become one of the most popular siding materials in New England, so demand is heavy and growing. Second, the cedar mills and shippers chose this opportune moment to go on strike.

It's also notable that the construction boom hasn't sparked big increases in the price of materials. Again, slack demand elsewhere has served to relieve pressure on prices. Even with its economic throttle wide open, New England accounts for only about 6 percent of the nation's building-materials market.

In the past few months, some prices have begun to move higher, largely because of the new import duties placed on Canadian building products. These duties will have a profound impact on New England builders, since the region gets more than 90 percent of its framing lumber from Canada.

Although the builders interviewed for this article didn't have many beefs about the availability or the price of materials, they did have some complaints about quality. Here are some of their peeves:

- "The quality has gone way down on plywood. We used to get five, six, or even seven plies. Now it's this cruddy 4-ply stuff."
- "The grading of lumber is really inconsistent. I have to personally oversee every single pickup to make sure I'm not getting garbage."
- "The quality of roofing shingles is the pits."
- "I don't like these big heads they're putting on box nails nowadays. They're ugly. I hear that the reason they do it is because the guys who run the nail machines get paid by the pound."

Changed, but Still the Same

Songwriter Paul Simon could have been thinking about small builders when he wrote: *After changes upon changes, we are more or less the same.*

Small builders *have* changed. For one thing, they're much more diversified than ever before. A new NAHB survey reveals that 67 percent of small builders have diversified into at least two building operations. Although custom home building may still be their first love, most small builders realize that having a second or third business leg to stand on can mean the difference between survival and bankruptcy when times get tough.

That there is strength in diversity was one of the harsh lessons taught by the '82 recession. In fact, NAHB strategists see diversification by small builders as one of the long-term trends that will shape the future of the industry.

Remodeling remains one of the most common areas of diversification for the small home builder. But there's been a fair amount of branching into attached housing and light-commercial work as well.

Richard Hastings, owner of Richard Hastings Builders of Bradford, Vt., is more diversified than most. He grosses about $500,000 a year, drawing a third of his sales from building single-family houses, a third from commercial construction, and a third from site preparation and excavation. Over the past few months, Hastings has branched out yet again, this time into electrical and refrigeration work. Moreover, he says he'd like to build a rental unit or two to keep as a "nest egg" for retirement.

Although there have been changes, some things remain the same. As in years gone by, quality workmanship is still the trademark of most small builders. "I'm personally involved with every house I build," says Jim Soroka, a custom builder in Conway, N.H. "Each one I do is like a little piece of myself."

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Besides their penchant for quality, many small builders interviewed made a unique claim: they often develop lasting relationships with their customers—"at least for as long as they own the house," one added.

"I guess about 90 percent of the people I build for end up becoming friends," says Tom Minnich, a builder in West Swanzey, N.H. "Of course, if you're making enemies, it means you're doing something wrong."

Such close ties to customers can be a mixed blessing. "Customers can drive you crazy with changes and extras," said a Cape Cod contractor who used to specialize in high-end custom homes. "Now I build on spec and give the buyer only a couple of choices—like the color of the tile and Formica."

Working closely with customers and understanding what they *really* want distinguishes the small builder from high-volume outfits. That being so, it's not surprising that all of the custom builders interviewed reported getting a large share of their business through personal referral. The largest ones advertised—but primarily to establish name recognition. Almost all of their work still came from word of mouth.

But being a good communicator and building quality houses isn't enough to ensure success in today's market. Small builders have to wear several other hats—and wear them well—in order to succeed.

"Assembling the building is only one-fourth of what you need," says Jim Soroka. "To make it in this business, you also have to be part salesman, part draftsman, part bookkeeper, and part purchaser." ■

Don Best is a freelance writer living in Keene, N.H.

Where to Find Good Hands

A recent NAHB survey found that every small builder had a "strong, long-standing relationship with [his or her] carpenter/finisher, and worked hard to keep this critical individual satisfied—and busy."

If you've got such an employee, treat that person well, because the days are gone when you could put an ad in the local newspaper and find a couple of good hands in the wink of an eye. Now small builders are struggling to hold their own in the fierce competition for good talent. And things may get even tighter in the years to come.

If you find yourself in this spot, don't forget that some community and voc/tech schools, as well as local high schools, have excellent programs in the building trades. Considering the challenges ahead, it might be a good idea to familiarize yourself with these educational institutions and consider taking an active role as a board member or advisor. That way, you'll be in a good position to skim off a few ace graduates as they finish their course work.

Smart builders also recognize that women, who make up a large and growing portion of America's labor pool, are a promising source of talent. Sexual prejudice, which has sometimes blocked capable, hardworking women from joining a building crew, will seriously handicap builders trying to compete in the coming tight labor market.

If you can't find the people you need locally, the National Association of Home Builders can also be a source of skilled labor. Since 1967, the Home Builders Institute—the educational arm of NAHB—has worked with more than 100 state and local builder associations to set up training programs in carpentry, plumbing, electrical, and other builder skills. The Home Builders Institute also oversees builder training programs at 30 Job Corps centers around the country.

NAHB has a toll-free number for builders interested in hiring a graduate from one of these programs. Call 800/368-5242 (extension 494). ■

—Don Best

Small Builders Sound Off...

...About Paperwork

"I can understand having to get approval from the town for a little project, but I don't see why the state has to get involved. I have to do the same amount of paperwork to do nine houses as a big developer has to do for 100. There's way too much government control. Especially, I wish the environmental-control people would get off the backs of the small builder,"

—Richard Hastings, Richard Hastings Builders, Bradford, Vt.

...About Quality

"The biggest change I've seen over the past five years is a decline in quality control. Now it's rush, rush, bang, bang, and get somebody to sign on the dotted line. I guess it's a sign of the times."

—Sven Uljens, Olde Towne Construction, Branford, Conn.

...About Banks

"Now that my local bank resells its mortgages to Fannie Mae and others, they've lost their local control and flexibility. That puts pressure on small guys like me. Now everything on the house has got to be done—100 percent—before you pass papers. It used to be, when the local bank had control, they'd give me a little leeway on that."

—John Spero, Spero Construction, Harvard, Mass.

...About Competition

"I'm not feeling competitive pressure from the big-volume guys. It's other custom builders who are my competition, especially the newcomers, who underbid me because they aren't paying insurance and workers' camp, and because they don't understand what their real costs are. It takes these guys two years to find out they're losing money. I think the state of Rhode Island should license general contractors. Licensing would make this more of a profession."

—Michael Smith, M.F. Smith Associates, Jamestown, R.I.

...About Manufactured Housing

"I think we're going to see a lot of cluster and planned-unit development in the future. And, of course, manufactured housing or panelized construction lends itself well to that kind of development, so we may get involved. It would address two of our biggest concerns—the cost of land and the shortage of labor."

—Ron Smith, Custom Built Homes of Maine, Windham, Maine

...About the Economy

"I just bought three lots to build spec houses, so I'm keeping my fingers crossed."

—Jim Soroka, Jim Soroka Builder, Conway, N.H.