

Tight-Penny News

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NARI Convention/Exposition

This year's conference for the National Association for the Remodeling Industry (NARI) made a visitor wonder if remodelers still build with wood. The 8,000 remodelers strolling through the exhibit area saw 225 companies duking it out for siding and replacement window sales. Still, I did spot a few new items. Vacu-Form creates a new acrylic liner in an existing tub (Universal Bathtub, Inc., Laguna Hills, Cal.). A vacuum process molds that liner to the tub instead of using chemicals and an etching process. The product could save hauling a usable cast-iron tub down three flights of stairs or buying a new Kohler claw-foot. And in the sealant department, Geocel featured a new caulk that sets up under water—probably something the Exxon Valdez should have carried on board. A third product that caught our attention was Thermo Window (of Livonia, Mich.). They make interior storms that fit by compression instead of the usual magnetic strips. They look tight as a refrigerator door and won't mar interior woodwork.

In contrast the lack of diversity on the floor, the seminars covered the full range of remodelers' concerns. The speakers covered hands-on, business, and design issues. Remodelers attending these sessions found lots of practical advice.

James Drengel's seminar on "Creative Solutions to Kitchen Remodeling" offered help in kitchen redesign. He used before-and-after examples to show how to improve traffic flow, efficiency, and appearance.

Another seminar that drew only half a crowd was "Why You Shouldn't Ignore Radon and Lead-Based Paint," by David

Harris (AIA, National Institute of Building Sciences). Harris waded through the radon statistics and showed that none of the regulatory agencies agree on a safe level of exposure. He suggested reducing radon levels by coating the inside of below-grade walls and sealing cracks. But he couldn't recommend any particular sealant or product. His other helpful suggestion for the lead problem was to tear out all windows, door, plaster, and trim. Right.

I expected to find it hard to stay awake for Sherwin Pogrund's "The Importance of A Good Contract" (Stone, Pogrund, Korey, & Spagat, Chicago). Instead, I found myself side awake and interested. Mr. Pogrund handed out nine sample contracts designed to protect the contractor from frivolous lawsuits and grumpy customers. One of these was even written in plain English—something the customer can actually understand without a lawyer.

Business topics throughout the seminars drew big crowds. "Quick Results: Estimating With A Computer," by Allen Harness (Software Shop Systems, Farmingdale, N.J.) lost part of the crowd because equipment hadn't arrived. But those stalwarts who waited were rewarded with a good lesson in what computers can do for take-offs and estimating. Mr. Harness' presentation was clear enough so that even those of us who are confused by the jargon came away with knowledge we could take to the computer store.

—Donna Milner

Financial Aid For First-Time Home Buyers: A Builder's Primer

It's no news to builders that the New England housing market has softened. Economic uncertainty, inflated prices, and a glut of homes are slowing sales. The slump is worst in the middle and upper ranges, and many a \$200,000 spec house sits empty. However, starter homes, which were overlooked during the boom, are still in demand. Real estate agents and lenders expect such homes to move well if they can be made affordable to first-time homebuyers.

Establishing affordability is the goal of several government-sponsored programs. Found in some form in every New England state, these programs help low and middle-income first-time homebuyers.

As a builder and developer, you can't use these programs directly (except to buy your own home). However, knowing the programs and directing potential buyers to participating lenders can help you sell starter-level homes you have built or (in some state) are considering building or renovating on spec.

The most common programs are described below.

Low-interest mortgages. All New England states have low-interest mortgage programs. These provide for conventional 25- or 30-year fixed-interest mortgages at below-market rates (usually 2 percent or more below normal). Low downpayment requirements (usually 5 percent) are another common feature. These programs have strict income and home price guidelines. In Maine, for instance, mortgages are available to low-income (under \$22K/year gross) and middle-income (under \$32K) first-time buyers at interest rates of 7 percent and 8.95

Connecticut Housing Finance Authority
40 Cold Spring Road
Rocky Hill, CT 06067
203/721-9501

Massachusetts Housing Finance Agency
50 Milk Street
Boston, MA 02109
617/451-3482

Rhode Island Housing Authority
60 Eddy Street
Providence, RI 02903
401/751-5566

Maine State Housing Authority
295 Water Street, P.O. box 2669
Augusta, ME 04330
207/623-2981

New Hampshire Housing Finance Authority
P.O. Box 5087
Manchester, NH 03108
603/472-8623 or in NH
800/248-7887

Vermont Housing Finance Authority
1 Burlington Square, P.O. Box 408
Burlington, VT 05402-0408
802/864-5743

percent, respectively. The house can't cost more than \$84,000, or \$100,000 in Cumberland or York counties.

Programs in Maine, Massachusetts, and Connecticut allow buyers to borrow funds for improvement as part of a mortgage. Connecticut also has a mortgage-refinancing program that lets present homeowners borrow for improvements.

Connecticut, Massachusetts, and Vermont programs provide funds for new construction. A mortgage agreement with a locked-in interest rate is made before construction, and the funds become available when the house is completed; the actual construction must be financed by a separate construction loan. However, the pending mortgage agreement usually makes such a loan easy to get.

Mortgage credit certificate program. In New Hampshire and Rhode Island, buyers can qualify for a federal income tax credit. The tax credit equals 35 percent of mortgage interest paid, up to \$2,000 a year. Most mortgages easily generate the maximum credit, reducing federal tax obli-

gation by \$167 a month. Instead of sending that money to Uncle Sam, the buyer can use it for house payments.

Lenders take this reduced tax burden into account when they consider an eligible buyer's mortgage application, so they require a lower gross income to qualify for any given loan amount. For a \$100,000 mortgage, for example, the gross income qualification requirement drops from \$47,000 to \$39,000. (This assumes other debts are not unusually high.)

Income and home price requirements for the mortgage credit certificate program are generally higher than for the low-interest mortgage programs, offering help to middle-income buyers who otherwise can't get it. This federally sponsored program may spread to other states soon.

Help with down payment—in N.H. only. New Hampshire, in addition to offering the programs described above, offers loans to cover up to \$10,000 of down payment, closing, and moving costs.

For more information. Your state's housing authority can provide details, updates, and further information.—David Dobbs

Cocoon Protects Building Sites From Hot and Cold

The Toronto-based Cocoon Building Systems is introducing a steel-framed cocoon that can be erected over building sites to keep bad weather out and cut down on weather-related repairs.

"The Cocoon," a sort of oversized tent, is made of vinyl and extruded polycarbonate. The idea sounds simple but the Cocoon is actually quite complex. The Cocoon's frame is made of steel tubes equipped with "jaws" to hold 4x8-foot wall and roof panels in place. The panels are available in four different materials: steel, wood vinyl, or, most practical for builders, clear 3-inch thick, polycarbonate plastic.

Developers say that framing and panel system can withstand

60 mile-per-hour winds and snow loads up to 30 pounds per square foot. The structure can be up to 41 feet high, 60 feet wide, and an unlimited length. The ends of the structure are vinyl sheeting with cut-out entrances. Installation involves lowering the cocoon over the building site with a crane and anchoring it in place with buy wires or weights.

Cocoon Building Systems claims that the Cocoon also screens out some ultra-violet radiation, preventing summer sunburns. It keeps out wind in the winter and all four sides can be opened to admit breezes in the warmer weather. In short, it makes working conditions a lot more comfortable, says Sam Bernard, the inventor and presi-



The steel-framed "Cocoon," which shields building sites from the elements, can withstand 60 mile per hour winds and heavy snow loads.

dent of the company.

Available in the United States this fall, the Cocoon may be rented or purchased from heavy-equipment or scaffold-rental firms. A 2,500 square-foot structure will rent for about \$2,500

per month with an additional erection charge of about \$1,200. The unit weighs about five tons.

—Wendy Talarico

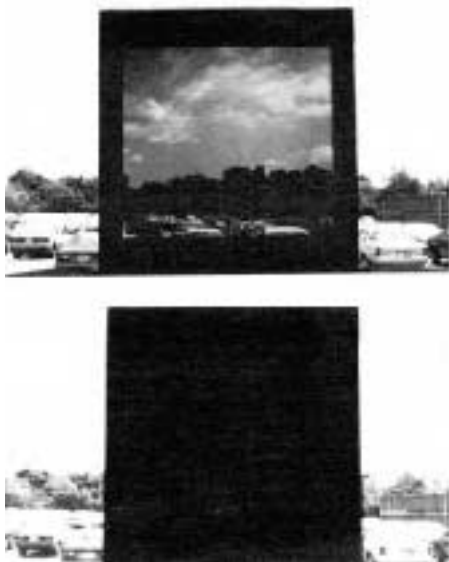
First-Year Mortgage Discounts Preserved

Builders got a boost recently from the Federal National Mortgage Association, known as Fannie Mae. Fannie Mae decided against rules that would have stopped the growing trend by lenders to temporarily discount mortgage interest rates—often lowering the first-year rate to one or two points below the market rate. The practice has been popular on the East Coast to allow borderline borrowers to qualify for home loans, opening up new markets for builders.

Glazing Possibilities Brighten

Too bright inside the house? Why not just turn a dial and darken your windows on a sunny afternoon? This sounds too good to be true, but a Woodbury, N.Y. company, Research Frontiers Inc., is in the final stages of testing a "variable-light-transmission window." The window uses an electrically controlled "valve" to control incoming light. Company vice-president Robert Thompson claims that the windows will be commercially available some time this year, and he says they will cost about the same as standard, double-glazed windows.

The variable-light-transmission windows are made of two or more sheets of lass or plastic. A conductive coating is spread inside each sheet, and a thin layer of small needle-shaped light-absorbing particles is sandwiched between the sheets. These windows work on the principle that the particles between the glass will align when a low electrical voltage is applied. When the particles are fully aligned—at the greatest voltage—light streams through freely. As the voltage is decreased, the particles come partially out of alignment and block some light. When there is



Tiny light-absorbing particles in this variable-light transmission window are activated to block light by a small electrical charge.



Computer Bits

Take off with a mouse... with Estimapro. After you run a computer mouse along the lines of a plan, the program computes quantities, assigns unit costs, and provides report. From IBIS Group International, 5885 Ibis Street, Sarasota, FL 34242; 813/921-4087.

No need to write specs from scratch... the Rehab Work Group sells Mater Rehab Specs on a floppy disk in ASCII format. Based on their low-cost techniques. For info contact Rehab Work Group, P.O. Box 1490, Alexandria, VA 22313.

Drafting, Macintosh Style... has been made easier with Blueprint, a 2D CAD package for professional use. For more information, contact Graphsoft, 8370 Court Ave., Suite 202, Ellicott City, MD 21043.

For the manager who wants everything... there's software to organize your day, just like Daytimer diaries. Who-What-When is sold by Chronos, 1500 16th St., San Francisco, CA 94103; 415/626-4244.

Job management software goes multi-user... HomeBuilder provides networking capacity to small building companies that want to grow. From Timberline Software, 9405 S.W. Gemini, Beaverton, OR 97005; 503/644-6001. ■

no voltage, the particles are at their most random state and completely block light. The applied voltage can be controlled incrementally either by photoactive switches or manual control. The response in the glass is instantaneous.

Research Frontiers Inc. has already licensed the product to two Japanese firms, and a Canadian firm will use the glass in military and airplane construction. But the company sees enormous application for the glass. Such windows, they claim, could be used in place of blinds, shades or awnings in residential and commercial buildings, and the product could be used in cars and planes as well.

Using the same technology, Research Frontiers has already developed a prototype pair of sunglasses powered by a tiny 9.5-volt battery, and it is currently working on technology for flat-screen T.V.

The variable-light-transmission windows are designed to compete with flat glass, and company president Robert Saxé estimates potential worldwide sales to be as much as one billion dollars. In 1987, the flat glass production in the U.S. alone was 4.4 billion square feet. As for the market for sunglasses, American regularly spend over a billion dollars on sunglasses yearly.—John Wagner

Effort to Ban Extruded Polystyrene Fails

A New Hampshire bill that would have banned the use of extruded polystyrene (commonly called Styrofoam) for sheathing on all new homes in New Hampshire was defeated in the state's Senate committee 5-0 after passing the House committee 16-0. The bill would have forbidden builders from using extruded polystyrene as the sole sheathing in new construction, but it would not have affected its use anywhere inside the house or over other exterior sheathing materials like plywood.

The bill's sponsor, Rep. Roland Beaupre of Manchester, said he introduced it to address what he perceived as structural and fire-related safety issues. Beaupre claimed that when builders use extruded polystyrene as the sole sheathing material over framing, the resulting structure lacks integrity, especially in a fire, when it would melt. He expressed concern that it would not support firefighters' ladders, especially if the house were built with 24-inch on-center framing.

Builders testifying at the House and Senate committee hearings argued that these dangers were minimal or irrelevant. In a separate interview, Doug George, of Conserve Associates, in Dover, N.H., called the bill unfounded, and said it would create problems in making cost-effective high-insulation walls. George regularly uses an expanded, porous type of polystyrene called Dura-R-Plus for sheathing. He says the material presents no significant structural or fire-related safety compromises if the underlying frame includes the code-required diagonal bracing.

Even though environmental issues are politically hot right now, Beaupre claims he did not introduce the bill because of environmental concerns. Extruded polystyrene has long been criticized because it does not biodegrade easily and because it is manufactured using CFCs, which have been linked with depletion of the ozone layer. Beaupre plans to reintroduce the bill in 1990.—David Dobbs

Vt. Builders Battle Inclusionary Zoning

The Vermont legislature is currently considering "inclusionary zoning" legislation (S.108 and H.445) that has a good chance of becoming law. As proposed, the bill would allow municipalities to require builders to construct housing for low and very-low income groups as part of larger projects. In exchange, the municipality would relax standards, streamline permit processing, and give the builder a 25-percent density bonus (although this "density bonus" must be in affordable units). If the builder doesn't want to build the required units, he may pay the municipality a fee equal to their value.

Many Vermont builders, led by the Home Builders Association of Northern Vermont (HNVANV), think the bill would have a negative overall impact and ultimately drive up the cost of housing.

Until former president Reagan cut \$35 billion from affordable housing subsidies, the federal

government had traditionally subsidized low- and moderate-income housing. Now the burden of affordable housing has fallen to state and local governments, and over 200 cities and towns across the country have responded by adopting "inclusionary zoning" ordinances.

The HNVANV contends that "inclusionary zoning" might work well in other places like California, where residential projects may contain as many as 1,000 units. But few projects in Vermont are that big. In fact, a typical residential development in Vermont includes nine single family homes, or 30 to 50 multi-family units. Only ten HBA members average more than 25 units per year. The HBA argues that large-scale residential developments may be able to provide enough money to subsidize "inclusionary" units sold at below-cost prices, but smaller projects, like the ones in Vermont, just can't carry that burden.

Rich Feeley, a Vermont developer, argues that the affordable housing crisis is too large and the solution too expensive to be left to municipalities. He thinks it should be handled at the federal level. Feeley explains that "To build a \$100,000 condo that must be sold for \$30,000 in order to meet the 'affordable' guidelines, leaves \$70,000 that the developer must make up by inflating the price of the other \$100,000 units. This could leave the developer without buyers, especially if a neighboring community doesn't have an 'inclusionary zoning' clause."

Feeley also worries that the state legislation will be adopted by municipalities before the communities realize that the impact will be felt not only by those who will live in luxury developments, but also by those who will live in moderate-income development—people who cannot readily afford to subsidize low-income housing.

The "inclusionary zoning" legislation is part of a larger issue in the state. With the enactment of Act 200, a bill designed to give regional focus to planning, municipalities are required to address the issue of affordable

housing. But, the HBA concludes, the efforts will have the unintended effect of supporting a "no-growth" mentality by discouraging the construction of any affordable units. The HBA position paper on this legislation points out that "our industry knows from years of experience that most municipalities discourage affordable housing because of the negative fiscal impact of such a project (i.e., tax dollars generated by the project may not cover the cost of educating the children) and the fear of property value decline."

The Vermont House has yet to vote on the measure but it has recently passed the Senate.

—Mary Twitchell

FROM WHAT WE GATHER

Saving and restoring wetlands is a goal of the EPA's new action plan, released in January, which wants "no net overall loss" of the nation's remaining 99 million acres of wetlands, which it says are critical habitats and help control flooding and pollution. The plan is based on a 1988 report, which found that up to a half-million acres of wetlands are lost annually to farming, development, and other uses.

Home inspections are done in fewer than two out of ten homes sold each year, according to Ralph Tisel, of The Building Inspector of America, a franchised home inspection business. Home inspection will be a \$700 to \$800 million industry by the mid-1990s, based on an average \$200 inspection fee, predicts Tisel.

Oil Companies Go Solar

This past year's breakthroughs in reducing the cost of photovoltaic (PV) technology have captured the interest of major oil companies. Both Amoco Corporation and Atlantic Richfield Company have established research branches in the technology and hope to capture some of the market for clean, renewable energy.

Recent advances in PV modules (semiconductor-like devices) have brought both lower costs and higher efficiency. A record 31-percent efficiency was achieved by a PV cell developed at Sandia National Laboratory this summer. This compares favorably with the efficiency of most oil- and coal-fired electric power plants. In the next five years it is hoped that the cost of a solar-produced kilowatt hour can be brought down to 10 or 15 cents.

Sales of PV modules are expected to grow beyond the 1987 figure of \$150 million. This increase is due partly to concerns about pollution at power plants,

global warming trends, and acid rain. But the main reason for the switch to PV is practical. The technology works.

A 50-megawatt utility-scale power plant by a New Jersey company, Chronar Corporation, is planned near Log Angeles, and will be seven times larger than any existing PV facility. This is a large step up from the popularly known consumer items such as calculators and patio lights.

In a related development, however, the federal budget proposal for 1990 recommended a 30 percent cut in federal PV research and development. Combined with reductions in other solar power related research, this would effectively stop the federal laboratory programs at the Solar Energy Research Institute and Sandia National Laboratories. Meanwhile, both Germany's and Japan's federal solar research programs currently surpass the United States' efforts by over 30 percent. ■

Heels Cause Court Scuffle

No more high heels for Berenice Rogers. At least not when walking about her \$235,000 condo, in Palm Beach, Fla. When Rogers had Italian tile laid at her Sun and Surf condominium five years ago, her footsteps started to bother her downstairs neighbors—so much so that they brought her to court. According

to a recent story in the *Burlington Free Press* (Burlington, Vt.), a judge didn't comply with the neighbors' request to order Rogers to install carpeting. But he did hold that if she bothered her downstairs neighbors again with noisy footsteps at night, she could be held in contempt of court. ■

Tax Talk:

How to Value Your Business

By Irving Blackman

"What's my business worth?" is a question most of my clients ask on a regular basis. For tax purposes, the answer is critical. This is especially true when the business must be valued when a gift of stock in the business is made to family members or the owner dies.

Remember, in such cases, the business will be valued without the benefit of a real buyer and real seller to hammer out a real price (value). And the IRS always stands ready to challenge the valuation. But take heart. There are ways to do valuations that the IRS will not upset.

There are no rules of thumb that fit all businesses. Yet, a few basic principles should help you get an idea of your business' value. First, some logical background. What is the purpose of business? To generate income. So, the key question is, how much will someone invest to earn a given amount of income? For example, assume two \$100,000 government (U.S.) bonds are exactly the same, except one has an interest coupon of 12 percent and other a 6-percent coupon. Of course, you would pay more for the 12 percent bond. Put another way, income is king. Also, when the

bond matures, you are going to get \$100,000. U.S. bonds are almost a no-risk investment.

Okay, now try this on your business. Look at your balance sheet and write down the book value (the total of the equity section or the assets minus the liabilities). Increase (or decrease) the book value for each asset that you could sell for more (or less) than shown on the balance sheet. For example, if the real estate is worth \$400,000 but has been depreciated down to \$150,000, you would add \$250,000. When you are done, you will have a number (say \$1,000,000) that is called the "adjusted book value." This is really the amount you have invested in your business.

Next, ask how much income would be considered a reasonable rate of return on this investment in your particular business—10 percent, 18 percent, more, or less? If you know your industry percent, use it. If not, the prime rate of interest, plus 2 percent, plus and additional 3 to 5 percent for risk should be used. Say the rate you use is 15 percent. If your adjusted book value is \$1,000,000, then a reasonable rate of return would be \$150,000 per year (15

percent times \$1,000,000).

If your business earns exactly \$150,000, it's worth about adjusted book value—\$1,000,000. Supposed the business earns \$200,000, or \$50,000 extra. This excess return is goodwill. What's it worth? Divide your rate of return (15 percent) into 100. You get 6.67. Call it 7. Multiply the \$50,000 by 7 for a \$350,000 goodwill value. That makes the business worth about \$1,350,000 (\$1,000,000 plus \$350,000) before discounts.

Discounts are a complex subject; but, in general, they allow you to reduce the value of your business by 20 to 40 percent. Use 30 percent as a rule. For example, a business valued at \$1,000,000 as shown above would take a \$300,000 discount, making the final value about \$700,000. ■

Irving Blackman, CPA, J.D., is with Blackman, Kallick, Bartlestein, Chicago, Ill. He specializes in closely held businesses. For more information on how to value your business send \$23 for How to Value a Closely Held Business, to Blackman Kallick Bartlestein, 300 South Riverside Plaza, Chicago, IL 60606.