Eight-Penny News

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Worcester, Mass., Solos as 'A'-Rated Single-Family Area

Two major and nine mid-sized U.S. markets earned a nation-wide real estate consultant's top rating as the most promising for near-term opportunities in single family development.

M/PF Research, Inc., of Dallas, Texas, chose the 11 markets after analyzing the number of permits, building starts, new jobs, demand for housing, retail sales strength, and other factors in the local economies. Figures reflect potential after the second quarter of 1989.

The sole New England market rating an "A" is Worcester, Mass.

In the East, markets receiving an "A" rating are Middlesex, N.J., and Reading, Pa.

"A"-rated midwestern markets are Evansville and Gary, Ind,; San Antonio, Bryan, and Killeen, Texas; and Omaha, Neb.

Western markets making the "A" list are Salt Lake City and Provo, both in Utah.

San Antonio and Salt Lake City are the major markets on the list. Appearing on the list for the first time are San Antonio, Evansville, and Gary.

Fran Condit of M/PF says six single-family "B" rated markets "bear-watching": Cleveland and Toledo in Ohio; Jersey City and Monmouth-Ocean Counties in N.J.; New Haven, Conn.; and West Palm Beach, Fla. Of those markets, three in the East and New England æ Monmouth-Ocean, Toledo, and New Haven æ are most likely to achieve "A" status after the third quarter, she says.

Inclusion in the survey does not mean that success is more likely, only that opportunities to succeed will be easier to find.

While the two top-rated major markets are recovering economically, three major markets that have yet to recover sit at the bottom of the ratings. Receiving a "D æ " grade are Dallas, Texas; New Orleans, La.; and Denver, Colo. Mid-Markets rated "D æ" are Bakersfield, Calif.; Corpus Christi, Odessa, El Paso, and Midland, Texas; Chattanooga, Knoxville, and Nashville, Tenn.: Baton Rouge and Shreveport, LA.; Oklahoma City, Okla.; Joliet, Ill.; Poughkeepsie, N.Y.; Mobile and Montgomery, Ala.; Savannah, Ga.; and Trenton, N.J.

M/PF markets its studies to developers, builders, investors, and others involved in real estate and economic development. It also rates markets for opportunities in multi-family, office, industrial, and retail construction. Reports cost $360 per quarter or $1,080 for four issues. ■

Tie-in Fees, Water and Sewer Rates Rise

How about $20,000 for a water and sewer tie-in fee? It may sound like a bad dream, but developers in some parts of Massachusetts are already facing such tie-in fees æ and you could be next. Water suppliers and developers around New England say that the threat of high tie-in fees will crop up as a local issue all over the region over the next ten years as suppliers seek to cover the rising cost of supplying water and treating sewage.

For now, the problem is worst in the Boston area, where water suppliers under the jurisdiction of the Massachusetts Water Resources Authority (MWRA) must help pay for the Boston harbor cleanup. The tie-in fee schedule in Manchester-by-the-sea (an affluent Boston bedroom community), for instance, starts at $500 per house and rises with the numbers of houses to a maximum of $20,000 per house (for 100 units or more). Other towns in the area have recently raised tie-in fees from nominal charges under $100 to $1,000 or more.

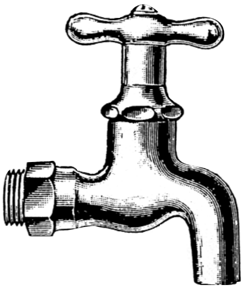
Not surprisingly, builders in the area are upset. Garen Bresnick, vice president of the Massachusetts Home Builders Association, says that while some towns use tie-in fees to cover legitimate growth-related expenses, other towns are raising their fees to help balance town budgets or pay for expensive capital improvements to long-neglected water and sewer infrastructures.

"They can't afford politically to charge existing residents to make the improvements," says Bresnick, "so they're grabbing the developer, and the buyer of the home in turn picks up the bill. We don't feel a system that has been neglected for 20 or 30 years should be financed on the backs of new home buyers."

While New England's water and sewer services might not see eye-to-eye with Bresnick, most agree that aging infrastructures are a major factor driving up water and sewer services costs. Michael Love, president of Southern New Hampshire Water Company and a former New Hampshire Public Utilities Commission (NHPUC) member, identifies three factors central to the rising costs:

- The cost of upgrading treatment plants or building new ones to meet the requirements of 1986 amendments to the Safe Drinking Water Act.
- The cost of upgrading sewage treatment plants to meet the requirements of 1987 amendments to the Clean Water Act. (This includes increased protection for water supplies and reservoirs from non-point pollution sources.)
- The cost of replacing or overhauling antiquated water holding, treatment, and distribution systems.

These pressures affect some water systems more than others. Towns with small, antiquated water supply and sewage systems will feel them the most, says Wynn Arnold, chairman of the NHPUC. "There's a real economy of scale in the water business."



The problem is aggravated where the need for repairs and other capital improvements has been neglected. Many New England towns have low water and sewer rates partly because their 19th-century systems have held up without repairs or improvements. But when drinking water standards, age, or pollution makes overhaul of these systems necessary, the cost can be astounding. New Hampshire's Wynn Arnold says that such repairs can force a choice between "water more expensive than fuel oil or a bad system.."

Politically, town officials can't afford to charge residents to improve the infrastructure,so they're grabbing the developer.

In Kent, Conn., for instance, a state-ordered overhaul of the Kent Water Company's entire system recently cost the private company æ which services only about 1,000 people æ $1.4 million, according to company president Guy Mankin. The company borrowed the money from the state via a bond issue but had to raise average residential rates to around $660/year to carry the debt.

Until recently, federal and state aid helped communities keep capital improvement costs down. New London, Conn., for instance, received state grants to expand its water filtration and sewage treatment facilities in the early '80s. That aid, says New London water and sewer superintendent Debbie Marshall-Baker, allows the town to keep its user rates below average and tie-in fees linked directly to inflation. But, says Marshall-Baker, state grants are no longer available, and federal aid is increasingly hard to get.

When a town grows rapidly, separating the cost of expanding systems from the cost of maintaining or repairing them can be difficult. New demand can drive an old system past its capacity, making a complete overhaul or replacement of water supply or sewer treatment facilities necessary.

In and around Burlington, Vt., for instance, town water and sewer systems are at or near capacity, according to Lorie Adams, who heads the water division of the Burlington Public Works Dept. Adams says the Burlington water distribution system is old and will need "somewhere near $29 million of repairs" over the next ten years. The division also has considerable debt stemming from recent improvements. While Adams says most of those costs will be covered by rate hikes (she expects rates to rise 20% yearly for the next few years), she is also looking into instigating tie-in fees based on projects' projected consumption of water.

Brad Allen, president of the Shelburne Group, a Burlington area developer, sees the possibility for some serious rises in tie-in fees in the area as growth pushes systems past their capacity.

"I think we could be looking at $8,000 to $10,000 tie-in fees not too far down the road. Water is spotty in this area, and you can spend $3,000 to $10,000 drilling a well. Sooner or later I could see towns charging that much to supply the water. The towns are definitely looking for developers to pick up these costs."

Clearly, developers can count on sharing an increasing share of the cost of expanding systems. It's also clear that they should be on their toes to make sure they do not pay for the low rates charged in the past, which in many cases were made possible only by neglecting needed repairs. The best way to ensure against that, says Garen Bresnick is to "get involved." Bresnick is urging Massachusetts's builders to take part in and monitor the fee-setting process in their towns. "Builders," he says, "should be at public hearing and questions how the fees are determined."

–David Dobbs

EPA Rule Favors Recycled Insulation

A new EPA ruling affects insulation products used on just about every construction job. The ruling says that anyone using federal funds to buy insulation must use products made from recycled materials.

Although the EPA advises agencies to place the main responsibility for following the new regulations on the designing architect, contractors need to be aware of the ruling too. Why? Because the EPA recommends that agencies give preference to bidders who use recycled products.

Not every insulating material can use recycled materials, but those that do include:

- Loose-fill and spray-on cellulose
- Perlite composition board
- Polyurethane, both foamed-in place and rigid board
- Phenolic rigid board
- Rock wool.

Fiberglass was dropped off the list because no U.S. manufacturing plants use recycled materials. The EPA has also adopted a wait-and-see policy on "recycled" polystyrene.

Recycled Material

Material Type	Recommended % by Weight of Recovered Material
Cellulose (loose –fill and spray-on)	75%
Perlite Composite Board	23%
Polyurethane Rigid Board	9%
Polyurethane Foam-in-Place	5%
Phenolic Rigid Foam	5%
Rock Wool	50%

* Made from paper recycled from consumers

While the ruling only affects any government agency that spends over $10,000 a year of federal funds on insulation, changes will trickle down to small buyers. The "big spenders" are supposed to check the vendor's records and verify the amount of virgin and recovered materials in each batch of insulation. And that may induce more manufacturers to include recycled materials in their products (see "Recycled Material," above, for target levels).

Critics say the EPA ruling took too long. But landfills overflowing with newsprint may get a few extra years of life if the construction industry can find uses for recycled material.

–Anne Lockwood

Atlanta Homeless Go for Huts

In the hands of the Mad Housers, construction-site scrap in Atlanta, Ga., is turning into shelter for the city's homeless.

The 30-member volunteer organization, meeting every other Saturday, builds about two huts a month. Measuring 6x8 feet, the plywood boxes afford room for a mattress and a few possessions, and minimal shelter from the elements. But even minimal shelter looks good to the homeless. Mad Houser Cabell Heyward says he has a waiting list of about 40 homeless, many of whom survive now in tent cities made of garbage bags.

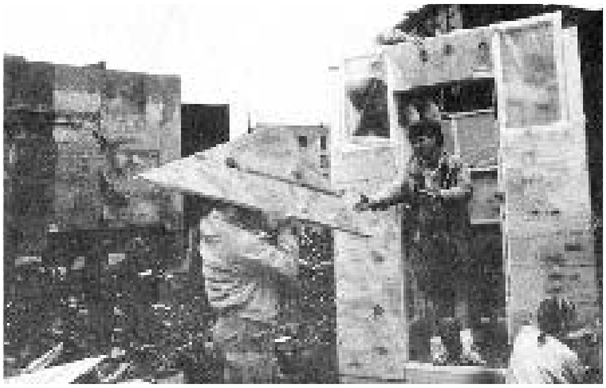
The construction crews prefabricate the roof sections, walls, and floors in vacated warehouse space. A crew can prefabricate a hut in about four hours. Putting them up takes another hour, Heyward says.

Although the huts violate laws and codes, the city has for the most part tolerated them. They're usually placed where homeless gather: under overpasses, for instance, along railroads, or on vacant lots. A hut is all the shelter many homeless have.

Once tax-exempt status is achieved, the Mad Housers may go a bit more mainstream. Atlanta Mayor Andrew Young, who honored the group, has pledged more than moral support: He has offered a $30,000 grant to pay for volunteer construction of two permanent bungalows. If more members are recruited and donations obtained, the group will build more permanent, low-cost housing.

"The two bungalows will meet code in every way," Heyward says. "They will be on a site we worked out with the city. Low-income families will move in. The idea is that they will use them as a stepping stone."

The main problem the Mad Housers face right now is dwindling donations from construction sites. The volunteers often have done simple demolition, stripping wood off a building to be torn down or clearing junk from sites to get at building material. Huts made from donated materials usually cost about $25. Huts made from materials purchased from lumberyards cost about $200. In a city with perhaps 15,000 homeless, Heyward says, there's no questions the donated materials would help. ■



Plywood huts, often the product of construction-site surplus, provide shelter for homeless in Atlanta.

Tax Talk:

Save Taxes When Sharing Employees

By Irving Blackman

Many closely held businesses operate as two or more corporations. Often, however, the corporations within the business share a number of key employees who draw separate paychecks from more than one corporation. Does that describe your situation? If so, keep reading. You are about to save substantial payroll tax dollars.

Here's an example of how it is done. Joe operated two corporations, which were conducted as separate businesses. Joe was president of both companies, and the corporations also shared the same controller, bookkeeper, and office manager. However, each shared employee received two paychecks every payday, one from each corporation.

That made each employee subject to the maximum Social Security tax for each corporation. This was no problem for the bookkeeper, who earned less than the maximum wages subject to Social Security ($48,000 for 1989). But the other three-shared employees exceeded the Social Security wage based on their combined wages from the two corporations, and there was no relief from Social Security taxes for them. Why? Because each corporation is considered to be a separate employer under the Social Security laws.

Here's what Joe did to save taxes. He was advised to make the related corporations a common paymaster for the shared employees. Since the shared employees were now paid by only one of the corporations, that corporation was considered to be the only employer. By using a common paymaster, taxes were due only on the one-employer maximum. The rest of the wages escaped Social Security tax. Neat trick.

If you operate more than one business and share employees, you can save taxes, too. The common paymaster break is available to related corporations that have at least 50% common ownership, or where at least half of the officers of one corporation are also officers of the other corporations. Or where at least 30% of the employees are shared employees. ■

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He specializes in closely held businesses

Warranty May Bolster Manufactured Homes' Image

A new warranty program by Manufactured Housing Warranty Corp. of Harrisburg, Pa., may help improve the image of manufactured housing.

Tom Bothell, vice president of manufacturing for the company, says Manufactured Housing's warranty, available to manufacturers and builder/dealers, is probably the first to extend coverage to ten years. The warranty covers manufactured housing as defined by the federal Department of Housing and Urban Development: mobile homes that are affixed permanent foundations, including double-width and standard-width single family homes. The homes must have at least 400 square feet of living space, Bothell says, and meet federal or regional codes.

Will Ehrle, president of the Texas Manufactured Housing Association and a warranty advocate, says several insurance companies offer three and five year programs. A ten-year program, he says further reassures the buyer. He adds that any warranty helps to eliminate the "negative perceptions" that have been associated with manufactured housing. About 115 companies produce manufactured housing in the United States. Most are in the Southeast and on the West Coast. An estimated 5.6%, or 4.7 million, of the nation's single family homes are manufactured homes. In 1988, manufactured homes sold for $9,000 to $75,000 per dwelling, not including land.

–Wendy Talarico

Remodelers Sound Off

Here's what some of you have on your minds. These comments appeared recently in the NAHB Remodelers Council's Quarterly Economic Survey.

Properties in historic districts scare us. Too much local historic society interference. – Kingsport, Tenn.

We are running into asbestos in almost all of our renovations and are making testing a part of our dialogue with our clients. Local drywall and acoustical subcontractors are not too knowledgeable about abatement unless they are unionized or larger than a five-man crew.
– Honolulu, Hawaii

Shutdown of steel mills and economic bleakness have created two problems: lack of homeowners with ability to afford remodeling; and increased competition from unemployed former steel workers now self-employed remodelers.
– Donora, Pa.

Why should homeowners be punished with higher taxes when t hey improve the appearance of their homes? – Ashville, Pa.

Failure of distributors to deliver materials in a timely and correct manner has caused constant schedule delays and cash flow problems.
– Hagerstown, Md.

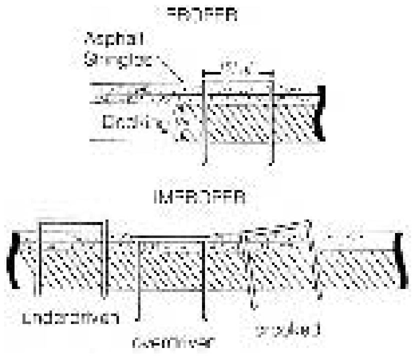
ARMA Emphasizes Rules for Stapling Strip Shingles

Amid reports of problems caused by sloppy pneumatic stapling, the Asphalt Roofing Manufacturers Association (ARMA) strongly emphasizes the need to follow a few basic rules in fastening strip shingles with staples. ARMA stresses that ignoring these procedures, which apply to new applications and reroofing, can result in leaks, blowoffs, raised tabs, buckling, and sealing failures. The guidelines include:

- Use staples only with organic and inorganic strip shingles that have a factory-applied adhesive.
- Staples should be zinc-coated and a minimum 16 gauge with a crown width minimum of 15/16 inch. The shank must penetrate 3/4 inch into a wood deck or completely through plywood decking.
- Drive staples with pneumatic staplers only, using four staples for each strip shingle.
- Drive these fasteners straight so that the entire crown of the staple is tight against the shingle; it should not cut into the shingle surface.
- For three-tab shingles with a five-inch exposure, locate the staples 5 5/8 inches up from the butt edge of the shingle, with staples over each cutout and at each edge. Make sure that staple legs don't come closer than one inch from the shingle edge.
- For two-tab and no-cutout shingles, locate staples one inch and 12 inches from each edge.
- For laminated shingles, place a fastener 1-inch from each edge and intermediate fasteners as recommended by the shingle manufacturer.

The complete guidelines are contained in a technical bulletin on staple application æ Form #153-RR æ available from ARMA (6288 Montrose Road, Rockville, MD 20852). ■

Application of Staples



Shown above are examples of pneumatic staples correctly and incorrectly applied with asphalt strip shingles. The Asphalt Roofing Manufacturers Association warns that leaks, blowoffs, raised tabs, buckling, and sealing failures can result from not following industry guidelines.

R.S. Means on Software

R.S. Means' database is now available to users of Timberline Software. For the first time, the R.S. Means Company – the most widely used source of construction cost information – is now electronically available through an outside software company. For estimators using Timberline's Precision Estimation Software the means that over 40,000 items stored in the R.S. Means database can be instantly accessed and pulled over to their on-screen spreadsheets. Cost information is kept current: R.S. Means updates its prices annually and can also regionalize costs using a special City Cost Index. The database does not come cheap: suggested retail price is $3000, with discounts available on multiple copies. ■

American Standard Announces Water-Saving Toilet

American Standard, the world's largest toilet supplier, entered the low-consumption water-closet market recently with a push-button, pressure-assisted, 1.5 gallon per flush (gpf) toilet. They are the last major plumbing fixture manufacturer to announce an ultra low flush product.

Rather than using gravity-driven water, the two piece, vitreous china toilet relies on the close-coupled pressure tank designed by Water Control International. It uses water pressure from the supply line to compress a volume of air above the water in the inner tank. When the toilet is flushed, the air expands, driving the small amount of water into a reverse-trap bowl at greater speed than a gravity system.

The Water Control International pressure tank is a slightly smaller unit than those supplied to other toilet manufacturers so that it can be housed within American Standard's existing "Cadet" tank. Service question on the toilet will be answered directly be Water Control International.

Aside from the pressure tank, the toilet has four main components: a pressure regulator valve, an air inducer, and pressure relief section, a cartridge assembly (the flush valve), and the push bottom (located on top of the china tank). It is designed to rough-in at 12 inches.

The "New Cadet Aquameter" as it's called, is available in the same colors as American Standard's basic Cadet model, and in two different shapes: round front and elongated. However, the new pressure-driven system costs $200 more than a conventional water closet. It comes with a one-year warranty; a second year "part only" warranty is extended to the homeowner who fills out the postcard packaged with the fixture.

American Standard is currently distributing its 1.5 gpf toilets in only tow states: Massachusetts (mandatory by the state legislature) and drought-conscious California (Los Angeles requires 1.6gpf). But with bills also pending in state legislature and municipalities across the nation that would mandate the use of 2.0 gpf toilets or less, American Standard is gearing up for the inevitable with plans to develop a full range of ultra-low flush toilets, both pressure-driven and gravity operated. ■

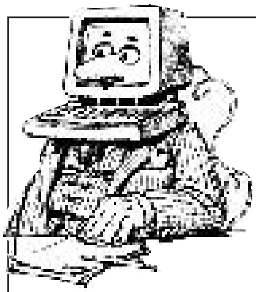
From What We Gather

CADD systems increase productivity, according to a recent survey which found that design firms with CADD reported 11% higher revenues on a per-staff basis than non-computerized firms. About 80% of design firms now have CADD, up from 71% last year, according to there report from Professional Services Management Journal, in Newton, Mass.

Beachcombers lost ground in Maine recently when the Maine Supreme Court ruled that shoreline owners have title to the tide-washed "wet-beach" that has traditionally been considered a public resource there. Now, says the court, if the public wants to use the beach, it must buy the rights from the owners.

New housing is hottest in the West, which records 2.2 starts for every 100 households, compared to 1.8 in the South and 1.2 in the Northeast and Midwest. Starts are slumping in the Northeast, which as of June was down over 22% from a year ago. The Midwest, by contrast, is up 4%, the South is up 1%, and the West is up about 2%.

The average American household is shrinking– from 5.8 people in 1790, the first year of the Census, to 2.5 people in 1988, according to the Census Bureau. Today's 91.5 million households are smaller due to more young people and elderly people maintaining households, more single-parent households, and families having fewer kids ■



Computer Bits:

To computerize or not to computerize? "How to Computerize Your Construction Company" is a brochure available from Software Shop Systems, Rte. 34, P.O. Box 728, Farmingdale, NJ 97727; 201/938-3200.

Back issues of Macintosh Construction Forum are available to MCF subscribers for $2.50 each, $10 to non-subscribers, $2 postage. To order this newsletter or back issues, contact Macintosh Construction Forum, P.O. Box 1272, Sandpoint, ID 83864; 208/263-3078.

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