Eight-Penny Nail

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N. E. economy continues to slide

The New England economy will stink for at least another year. So say not only regional economists, but the consumers on whose confidence any recovery largely depends.

The most disturbing aspect of this pessimism is its pervasiveness. As late as July 1990, economists disagreed on when the regional recession would end. Some said 1992, but many predicted relief as early as spring or summer of 1991. Now, however, virtually no New England economist sees a turnaround before the spring of 1992.

Two main factors prompted this change: the rise in oil prices caused by the Iraqi-Kuwait crisis; and national economic indicators that are weaker than previously anticipated. Added to these factors (and partly a result of them) is a record-low lack of consumer confidence among New Englanders, which may further delay any turnaround.

High oil prices. High oil prices will add both recessionary and inflationary pressures, the dreaded "stagflation" you may remember from the 1970s, to the already stumbling New England economy. Whether or not the actual oil supply remains the same during the Iraqi crisis, speculative bidding driven by the tensions in the Mideast will likely keep oil prices above at least $25 per barrel, according to Cahner's economist Kermit Baker.

Higher oil prices will send yet more money out of New England while raising the cost of everything. "New England is particularly sensitive to oil prices," says NAHB director of economic forecasting Robert Villanueva. New England states import even more oil than the rest of the country, and particularly depend on it for heating — about 60% to 70% of New England homes are heated with oil, compared to about 20% in the rest of the country.

Also, because they are inflationary, high oil prices push up interest rates nationally, which further discourages home-buying and construction. This combination of regional and national oil-related factors, says Villanueva, "along with the overbuilding New England already has, means it will probably take longer for it to pick up than the rest of the country."

Bad news from national front. Also deepening the gloom are new figures and forecasts showing the national economy to be weaker than previously thought. Economist Peter Kozel, of Kozel Economic Evaluation and Consulting of Massachusetts, says that as late as May of 1990, "the forecast for the national economy was looking for at least 2% real growth nationally, and for some significant declines in interest rates during 1990."

However, says Kozel, "the latest figures reduce growth estimates significantly. That's the overriding factor in the [regional] reassessment: The national forecasts were just too strong. In addition, national figures being assumed for 1989, which are published by the [U.S.] Department of Commerce, ended up being revised downward." It was largely these reassessments, says Kozel, that caused most New England economists to give up hope on a turnaround in 1991.

Consumers down and out. Finally, consumer confidence among New Englanders reached new lows when Iraq invaded Kuwait. In August, for instance, the "consumer confidence index," researched monthly by the Conference Board in New York, found consumer confidence in New Eng-

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Mass. builders dodge sales tax bullet

Residential builders and remodelers in Massachusetts narrowly missed being included in a revenue bill that extended the state sales tax to services as well as products.

Lobbying by the Massachusetts Home Builders Association (MHBA) convinced legislators that such a tax wasn't in the state's best interest, and that it would make it harder to build affordable housing. Had residential construction been included, contractors would have been charged a 5% sales tax on all bills submitted to them by subcontractors. The MHBA estimates the exemption will prevent a rise of roughly $3,000 in the cost of a $100,000 home.

The bill does subject builders of commercial projects to the tax. Any builder or remodeler working for a commercial or industrial client will see charges of 5% tacked onto all subcontractor's labor charges for those jobs.

One area of the bill remains unresolved. It is still unclear whether architectural and engineering services — which under the new law are taxable when a year's charges to one client exceed $50,000 — will be taxable when billed to residential builders and remodelers.

That issue should be settled when the Massachusetts Department of Revenue publishes its regulations for the new taxes. If the residential exemption doesn't override the tax on architectural and engineering services, builders or developers working on large residential projects, such as multi-unit housing or subdivisions, may have to pay sales tax on those services. ■

This home-refueling, natural gas compressor made by FuelMaker Corp. of Vancouver, B.C., fills a car at the equivalent of one gallon per hour and automatically shuts off when the vehicle's tank is full.

Home auto refueling stations on horizon

As events in the Persian Gulf graphically emphasize, continuing the current level of nearly total reliance on oil for transportation is not the best long-term plan.

And as alternative fuels become more a reality than a promise, homebuyers may start asking for a new option in their garages: home refueling capability for their commuter vehicles.

The two auto fuels which can be supplied from the garage easier than from gas stations are electricity and natural gas. Since roughing-in a home refueling capability in a new home is a good deal less expensive than retrofitting, it makes sense to think ahead. It might also offer a marketing edge now that buyers are scarce.

There are at least four economic and political factors that will make alternative fuels more attractive, which could raise the demand for home refueling stations.

- Rigorous air quality standards in urban environments like Los Angeles will require increasing reliance on clean alternatives to gasoline. Rapidly developing electric vehicles have the best chance to meet LA's zero emissions standards, which could kick in by 1998.
- A new national energy policy is likely to emphasize the need to diversify the transportation sector's 99% reliance on oil; our two most plentiful alternatives are natural gas and electricity.
- Utilities such as Los Angeles Water and Power and Southern California Edison (SCE) will be stimulating the alternative vehicle market with large orders (10,000 "electrics" between 1992-1995).
- While alternative vehicles will cost more, both off-peak electricity and natural gas fuels cost less per mile than gasoline — about 2 cents and 2.5 cents, respectively, compared to gasoline's 4.2 cents, for a 30 mpg car.

The first step is to find out if your local utility gives any financial incentives for using their products as automotive fuels, or if they have developed guidelines for residential refueling.

Building a garage-based, refueling center for an electric car should be straightforward — basically an outlet. A typical setup could include: a convenient electric outlet with adequate service (30-50 amps on a 240-volt branch circuit, similar to that for a dryer or range); a ground-fault circuit interrupter, triggered by any current leakage; and a time-of-use controller and electrical meter.

The U.S. Department of Energy estimates this refueling package will cost $350-$400 in a new home, and $600 in an existing home. But if you're building in a warm climate and have a dryer hookup in the garage, the package may not cost a dime extra. Utilities like SCE are likely to offer free installation for time-of-use meters. Initially, it may not be necessary to add meters. However, homeowners will want to recharge their vehicles overnight, since the price after 10 p.m. may drop by as much as 50 percent, the meter will be necessary at some point.

Rough-in for future natural gas refueling is less expensive for the builder but more expensive for the homeowner. If a buyer wants the option to eventually install gas refueling capacity in their garage, the builder should run gas piping into or just outside the garage (check with your local utility); bring 240-volt power to the same location; and rough-in a ceiling electrical box for eventual hard-wiring of a safety

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Permits rarely pulled for remodeling

It's no secret some residential remodeling projects are completed without a permit ever being issued. But the National Association of Home Builder (NAHB) Remodelor's Council, with numbers from the Bureau of the Census and some interpretation from the NAHB Economics Division, has found that the vast majority of residential remodeling done in the U.S. last year was not done under permit.

Of the $100.9 billion spent on "residential upkeep and improvements," only 13% — or $13.4 billion — could be tracked by permits from the 17,000 reporting cities, towns, and counties that issue permits.

These figures were derived from two sources: quarterly C-50 reports, and little published metropolitan area numbers. The Census Bureau collects the data for both.

There are a number of explanations for the discrepancy between total dollars under permit and total remodeling expenditures for the year.

Since permits are issued by local bodies, there is little agreement on what kind and scope of project requires a permit. And unlike new construction, enforcement of permits can be spotty at best.

Some of the reasons permits are not obtained by homeowners and remodelers cited by the Remodelor's Council included:

- Permits aren't always necessary — or thought to be required — for small jobs or repairs, although these can add up to a lot of dollar volume when considered as a whole.
- In some states that require contractor licensing, unlicensed remodelors aren't allowed to file for permits.
- Do-it-yourself projects, estimated at 25% of all remodeling, often don't require permits or they aren't obtained by the homeowner.
- Many homeowners avoid filing for permits or don't report improvements to keep tax assessments from rising.
- Projects that won't meet code or conflict with local zoning regulations are typically built without a permit. ■

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land to be the lowest the Board had found in any region since it started doing regional surveys in 1981 — lower even than the levels found in Texas during the mid-1980s oil bust, or in the Midwest during the depressed farming and manufacturing years of the early 1980s.

While mainly a product of other economic news and subject to sudden change, some economists feel this negative consumer thinking may help to sustain the recession. Kermit Baker, for instance, says confidence levels that low "are a big part of the problem to begin with. People are nervous about job security and the economy in general, and will thus likely continue to avoid big expenditures such as homes or home improvements."

Some hope for small contractors. If there's a ray of light in this gloom, it is that small custom builders and remodelers may be best positioned to win the scattered single-house and remodeling contracts left in the recessionary market. Peter Kozel, for instance, sees "a return to the way building used to be before the speculative boom: People tried to find a couple of lots in a well-established community, get a buyer, and build a house for that buyer. I think that market is still there."

A complete turnaround in construction will rely on a turnaround in the main factors now depressing the market: a drop in interest rates to bring mortgages to around or below 9% (which may in turn depend on a lower inflation rate); a higher rate of national growth; and a renewal in optimism among New Englanders. Until then, says Kozel, we shouldn't see significant improvement or weakening of the regional economy.

— David Dobbs

Garage, *continued from previous page*

device (a methane gas sniffer that would shut down refueling if gas leaked).

The homeowner with a natural-gas fired car will have to purchase a gas compressor to complete the refueling station. The first 1,000 home refueling gas compressors, made by FuelMaker Corp. (1066 West Hastings, Vancouver, BC V6E 3G3, Canada; 604/684-4269), are going into place this year (see photo). While most are being installed in Alberta and Calgary, 100 demonstration units are to be installed in the U.S. over the next 12 months.

Several are already in place here. Northwest Natural has paid for one of the 145-pound units in each of the last two "Street of Dreams" home shows in Portland, Ore. Current cost for the FuelMaker is $3,500 including accessories, with another $300 to $500 for installation. As production volume increases, the price of a FuelMaker should drop.

When will buyers start asking for home refueling? It's very unlikely during the next couple of years, but there may be some serious interest generated by government, utilities, and suppliers before 1995. Then again, events in the Middle East may crank up everyone's interest a bit sooner than planned.

— Steve Andrews

Builder initiates FRT repair

Pulte Home Corporation, a large midwestern construction company, is voluntarily replacing all roofs it built with fire-retardant plywood (FRT) that are degrading prematurely.

Shortly after the company discovered the problem, it began an aggressive campaign to identify all of their homes where the plywood had been used. The company developed an FRT Assistance Plan to repair or replace any defective FRT roofs at no cost to homeowners.

Pulte Home Corp., which has built about 16,000 townhouses using FRT plywood, expects to spend up to $65 million nationwide to replace roofs that have deteriorated.

"Even though there had been no problems reported to us by any of our Illinois buyers, we initiated a precautionary, rather than a reactionary, program to insure the integrity of our product," said Daniel Star, president of the Illinois Division of Pulte Homes.

So far, Pulte is the only Chicago builder to have a corporate program of this kind. The program began with a "generic" letter to all homeowners in all multifamily communities informing them of the potential problem. The company has already inspected almost 1,000 of an estimated total of 1,200 roofs. Inspectors check the condition of FRT roof sheathing and notify owners of their findings. Then company reps meet with homeowners associations to explain the repair and replacement procedure.

"We want to begin fixing the defective plywood before it actually becomes a serious problem for our homeowners," said Star. "Because this is an industry-wide problem resulting from several building codes that required developers of multifamily properties to use FRT plywood, we expect other builders will soon be formulating similar programs of their own."

Pulte plans to repair or replace 423 roofs in 1990. The company is using Dricon FRT plywood made by Hickson. Though Pulte hasn't released its repair costs, The National Association for Home Builders estimates replacement costs at $2,000 to $3,000 per roof.

Complicating the problem is the fact that the ten-year extended warranties provided by the homeowner warranty program don't protect the builder from financial liability.

Beginning about 1980, FRT plywood began to be used for roof sheathing in multifamily homes (townhouses, condos, and apartments). The product, required by many building codes, was designed to prevent the spread of fire from one unit to the next.

However, the chemical reaction that makes the material fire resistant is occurring at normal roof temperatures and causing premature plywood degradation. It appears that roof temperatures raised by the sunshine are enough to kick off the chemical reaction in some FRT-plywood products, which causes the plywood to lose strength and durability. ■

— Marylee MacDonald

From What We Gather

The construction worker on the poster (see photo) advertising a fraud hot line, miffed Max Erlich of the Massachusetts Building Trades Council. The poster is aimed at curtailing corruption in Boston on the upcoming $5 billion central-artery roadway project and the $6 billion Boston Harbor cleanup project. "Once they take care of the S&L scandal, they can worry about some construction worker stealing a 2x4. Better they should show a contractor in a blue suit or some sleazy developer," Erlich remarked in *The Wall Street Journal*.

Young trees do not eat up carbon dioxide as well as old-growth forests, according to a study by the Oregon State University. The research published in *Science* corrects the widely-held belief that replacing old-growth forests with fast-growing, young stands diminished the greenhouse effect. ■

Asbestos removal not always best

The latest Environmental Protection Agency (EPA) document for owners of buildings with asbestos downplays the need for total removal of the material.

Instead, the EPA publication *Managing Asbestos in Place* concludes that in many cases, a properly conducted "operations and maintenance" program is a more appropriate response to the presence of asbestos than a large-scale removal effort.

"The EPA never mandated total removal of asbestos in all buildings, but many people have gotten that idea," said Karen Crampton, asbestos program coordinator with the Vermont Department of Health.

She noted that the EPA only requires removal in schools where the asbestos is damaged and cannot be repaired, or during demolition or renovations. And in both situations, the work can only be done legally by properly trained and certified people.

"Whenever I talk to general contractors or plumbers, I always suggest that they take a training course," she said. While the short training course will not qualify a builder to remove large amounts of asbestos, it does teach the way to remove the material without making the situation worse. She noted that 47 states have asbestos training and removal programs.

"Removing asbestos improperly can contaminate a whole area. The cleanup can be more expensive than if the asbestos was removed correctly in the first place," Crampton said.

To order *Managing Asbestos in Place*, call the Government Printing Office at 202/783-3238 and ask for GPO Stock No. 055-000-00362-9. EPA regional offices will also have the publication. ■

Road plan may raise impact fees

The Bush administration's road and transportation plan, unveiled last spring, has the potential to raise local impact fees paid by builders. The plan shifts responsibility for 740,000 miles of roadways to state and local governments. To generate the money needed to repair these roads, some of which have been neglected for years, these governments will have to raise either taxes, impact fees, or both.

Given the fear politicians have of being labeled "taxers," impact fees might bear a disproportionate share of the burden. Builders in some parts of the country are already complaining that they're helping to pay for repairs to old water and sewer systems (see Eight-Penny News, 1/90). ■

Tax Talk

Real estate investors can deduct travel expenses

By Irving L. Blackman

You can deduct the cost of traveling to rental properties by following two important rules. The primary purpose of each trip must be to repair, maintain, or manage your investment, and you must properly substantiate the expenses.

Here is a case that spells out what to do and the horrible tax result if it is not done. A man named Didsbury who lived in New Jersey owned rental real estate in Washington, D.C. One year, he made 44 trips to Washington to do maintenance work to the properties. Sometimes, he also took care of personal matters during the trips. He kept no records to substantiate his legitimate travel expenses. Sorry, said the Tax Court — no records, no deduction.

Here is where Didsbury failed and you must succeed:

For each trip, show that the trip is primarily related to your investment by recording the amount of time spent on investment activities and not on personal errands.

Also, record the investment purpose of each expense along with the amount, date, and time.

Your best bet is to keep a logbook or diary. And, keep receipts. Then, your investment-related travel expenses are fully deductible against your rental income.

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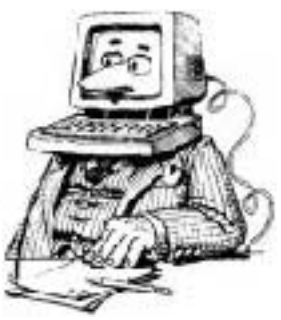
Computer Bytes:

Add a hand-drawn look to Autocad drawings with Patterns, a program that fills in 42 different designs that look like stone, wood, shingles, or brick to name a few. For more information, contact Automated Drafting Systems, 516 SE Morrison St., Suite 305, Portland, OR 97214; 503/232-8420.

Fire Resistance and Sound Control Design Manual for gypsum board walls is now electronic and available for IBM-compatible computers. For more information, contact Vertex Design Systems, 282 Second St., Fourth Floor, San Francisco, CA 94105-9837; 800/688-2799.

Structural design software for IBM-compatible computers is aimed at light construction. For more information, contact Arch Tech Computer Software Systems, 5250 Birchcrest, Swartz Creek, MI 48473.

Estimating software for Macintosh computers written for contractors by contractors called Estimator Solution! 1.0. For more information, contact Vertical Solutions Inc. at 805/257-6911.



Recycling vinyl siding in New York State

A New York plastics company and a western New York home improvement council have joined forces in an effort to recycle the cutoffs from vinyl siding installations.

The council sends waste vinyl deposited by contractors in bins at four local suppliers to Shuman Plastics, where it is melted and extruded into pellets. The reborn plastic is then made into drainage pipe, garden furniture, and a host of other products.

The council makes money selling the plastic, and contractors lower tipping fees. The typical vinyl siding job yields about 100 square yards of waste.

More than 250,000 lbs. of plastic have been recycled in the 18 months the program has been in place. ■