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Economists Agree: 1992 A Year of Waiting for New England

Despite mixed predictions about the nation's economy this year — with some economists predicting a slow national recovery and others a double-dip recession — most economists agree that in New England, both the economy in general and housing in particular will remain flat in 1992.

"It's clear that things can't get worse," says Daryl Delano, senior building economist at Cahner's Economic Group. "But there's nothing to suggest there will be a real pickup this year either. If the numbers get better, they will get only slightly better."

The national forecast is quite different. Most economists are predicting that, nationally, housing starts will jump 15% to 20% in 1992, with a smaller increase (around 5%) in remodeling spending — a significant improvement over 1991's anemic performance, the worst year since World War I. The NAHB, for instance, forecasts housing starts will jump from 1991's 990,000 to 1.185 million. Yet virtually no one is predicting a significant improvement in New England's housing market.

Why should New England's economy lag so?

One reason is the lack of consumer confidence, which is even worse in New England than elsewhere in the country. Massive job losses and business failures in the region over the last two years have left few New Englanders feeling secure about their jobs. The result is record-low consumer confidence and widespread hesitation about buying or remodeling houses.

Another factor is the depletion of personal savings levels and tight credit at banks. This lack of capital has left many who *do* feel optimistic unable to come up with the money to buy, build, or remodel.

Finally, some of the region's main industries — manufacturing, defense, financial services, and insurance — are still weak. Manufacturing faces fundamental problems, defense contractors are suffering from budget cuts, and the financial and insurance industries are reorganizing. The instability of these sectors has left little to drive the other major non-service sector — construction.

The bright spot, however, is that housing inventories are returning to reasonable levels in most parts of New England. This should allow housing to rebound once the basic economy gets back in gear. A year ago the market was flooded to record levels with huge numbers of homes and condos, many of them owned by banks or the federal Resolution Trust Corporation. Most of those have since been sold (many at auction). This reduction of inventory should halt the free fall in prices, which seem to be stabilizing after dropping anywhere from 5% to 20% between 1989 and 1991. The result, says Delano, is that "supply and demand are finally in better balance. But the economy simply hasn't picked up."

For that to happen, Delano and others agree, the national economy has to stabilize so that New England residents and businesses will again have the confidence to invest in industry and housing. Only then will housing begin to respond. And that, most economists agree, won't happen with any force until 1993. □

Survey Draws Profile Of Remodeler

The average remodeling company is headed by a 41-year-old, college-educated man who works an average of 55 hours a week. This is, at its most basic, the statistical picture of the typical remodeler that emerges from a recent National Association of Home Builders survey of remodelers. Released at the 1991 NAHB Remodelers Show in Pittsburgh, the survey, entitled *Profile of the Remodeler*, unveiled a number of revealing facts about remodeling firms. Some of these confirm the popular image of the remodeler, and some don't. Among remodeling companies:

- More are organized as corporations (57%) than as sole proprietorships (39%) or partnerships (4%)
- Only 19% are headed by someone whose parents were remodelers
- Half are headed by people holding college or graduate-school degrees
- Six of ten are headed by baby boomers (between 25 and 45 years old)
- Only 3% are headed by women
- More than 50% of remodelers work out of home offices; 26% work elsewhere in a building they own, while 21% rent.

The survey also revealed how remodeling companies spend (and save) their money. In a typical additions or alterations job, labor costs claim an average of 36% of the budget, materials 35%, and overhead costs 17%, for a profit of 13%. For maintenance and repair work, labor claims 42% of the budget, materials 28%, and overhead costs 17%, for a profit of 13%.

The survey also indicated that remodelers are resourceful about getting work. Seventy-one percent offer in-house design services; 58% offer insurance repair work; 50% offer handyman or small-job services; and 28% offer home inspections.

Nonetheless, the main source of remodeling work remains referrals and repeat customers, which accounted for 72% of remodeling firms' work in 1990. □

Remodeling a Pisa History

When Chicago contractors Edward and Allen Mertes landed a job to renovate a replica of the Leaning Tower of Pisa in Niles, Ill., they figured their work would get closely inspected. But they never guessed it would have to stand the perusal of Giancarlo Badiani — who, as Pisa's supervisor of public works, oversees the maintenance of the real thing. Following a news conference proclaiming Niles a sister city to Pisa, Italy, however, an interpreter pulled Edward Mertes aside and introduced him to Badiani.

Mertes explained how his company had cleaned and rehabbed the Niles replica of

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This leaning tower in Niles, Ill., is about half the size of the Pisa original and hides a water tank instead of a bell tower. It is also different in that it doesn't move; the real thing has sunk 7 feet in the last 700 years.

STATE BY STATE

Virginia: The standards of responsibility for fire safety continue to rise. Prince William County fire officials recently charged the parents of three children who died in two October 1991 fires with failing to properly maintain the smoke detectors in their homes, according to a report in NAHB's *State and Local Reporter*. If convicted, the parents face fines and possible prison terms. One parent was a homeowner, the other a renter. The homeowner was charged with disabling the smoke detectors in his home. The renter was charged with failing to maintain the detectors in the house she was renting; her landlord was also charged with failing to file notice with the fire marshal, as required, certifying that the smoke detectors worked.

Massachusetts: On December 31, 1991, Governor William Weld signed into law House Bill 6410, thus overhauling the state's workers compensation system. The bill, effective immediately, seeks to make things easier on the state's employers by reducing workers comp costs. Among other measures, it puts a 312-week limit on benefits, except for specified serious disabilities; limits benefits to 80% of the statewide average weekly wage; and puts a limit on attorneys' fees.

Nevada: Las Vegas joined the growing list of communities and states requiring low-flow plumbing fixtures in new construction. The law, effective March 1, 1992, also restructures water rates to reward conservation; bans new manmade lakes; restricts decorative and recreational water features; imposes fines for wasting water; and restricts the use of grass in landscaping. □

Court Holds Contractor Responsible for Job-Site Safety

Employers who knowingly ignore unsafe conditions can face both a lawsuit and a workers compensation claim, according to a recent North Carolina Supreme Court ruling. This ruling reversed a longstanding rule that an employee injured in such circumstances had to choose between workers comp benefits and taking a chance on a lawsuit. To accept the comp benefits was to waive the right to sue. Now the worker can pursue both avenues at once.

The case also established that if a job site is "inherently dangerous" (as determined by a jury), the general contractor (GC) may be held liable by a subcontractor's employee for unsafe conditions. This was based on the principle that, though the general contractor can't control the sub's employees, he is responsible for general job-site safety standards.

At issue in the case was an unshored trench dug by a subcontractor, Rowland, which collapsed on a Rowland employee, killing him. The trench violated OSHA regulations requiring shoring or other precautions. The general contractor had been trenching side by side with the sub. Though the GC had shored its trench properly, it did not insist that Rowland do so, even though it knew the Rowland trench was not shored. Rowland had been cited four times previously for unsafe trenching practices.

The dead employee's estate filed suit against Rowland, against the GC, and against the property owner. It also filed for workers comp benefits, requesting that the comp ruling wait until the civil suit was over.

To pursue a civil suit, the estate had to show that the death was "intentional." The court agreed that it was, defining "intentional" as a situation "which the employer knew was *substantially certain* to cause serious injury or death."

The court, having decided these principles, sent the case back to a lower court to be decided. If the worker's estate wins the suit, it must forego any workers compensation benefits it receives. In the meantime, however, a new standard of responsibility has been set for contractors.

— Perry Safran with the assistance of James P. Laurie

From What We Gather

The dangers of radon may have been exaggerated by up to 30% because most assessments are based on a study of miners, according to a report last year by the National Research Council. The Council argued that because miners are typically breathing hard, their lungs suffer more exposure to radon than do those of indoor occupants. That and other studies are putting pressure on the EPA and other regulatory bodies to revise their assessments of radon's dangers, and to raise "action levels" from the present 4 picoCuries per liter.

Glass coatings may soon be able to redirect light to any designated spot on a ceiling or wall. The new technology, being developed by Advanced Environmental Research Group of California, uses microscopic slats that, like tiny Venetian blinds, redirect light so that it bounces to the back of dim rooms, reducing the need for artificial lighting. Mass production isn't scheduled for another two to three years, however.

Identifying over 3,000 wood samples a year is a big part of Donna Christensen's job at the U.S. Forest Products Laboratory in Madison, Wis. As described in a recent *Woodshop News* story, Christensen uses a microscope, a computer, and a collection of 110,000 wood samples to make her identifications. She says she needs a piece at least as big as a matchstick to make her I.D. — but often makes do with mere scrapings sent by antique dealers. The lab made its most famous I.D. in 1934, when it broke the Lindbergh kidnapping case by matching scrapings on the suspected kidnapper's ladder with those from the window sill of the kidnapped (and murdered) child of the famous pilot.

Credit crunch or no, the nation's healthier banks are increasing their commercial and real estate lending, according to Veribanc, a firm that monitors the health of individual banks. The firm found that, of the banks meeting its healthy, "three-star" rating, 66% are increasing real estate lending by 1% or more, and another 10% are holding steady.

The first insulation board made of at least 50% recycled polystyrene was recently produced by Amoco Foam Products. The new product, called AmoFoam-Rcy, draws on such sources as disposable cups and plates, meat/produce trays, and packaging. More such products will likely follow; Amoco is one of several major polystyrene manufacturers exploring the use of recycled foam products.

Plumbing and heating are the systems most likely to cost buyers of existing homes money in their first year of ownership, according to a study by Buyers Home Warranty Co. The warranty company found that plumbing problems accounted for 18% of its first-year service calls, and heating systems caused 15% of them.

Balancing the Trade Gap: U.S. Designs (and Wood) Heading East

Japanese homebuyers are increasingly interested in American home design, and Mitsubishi International Corporation (MIC) plans to take advantage of it. Seattle-based MIC is 100% subsidized by corporate giant Mitsubishi of Tokyo, and exports Pacific Northwest timber to Japan. By promoting American designs using stick-frame construction, the company hopes to promote greater use of wood by Japanese home builders.

According to MIC spokesperson Seuseumu Oynagi, Japan builds 1.3 to 1.5 million homes a year (for a population of about 140 million), and about 40% of those homes use wood construction, including both traditional Japanese post-and-beam and western-style stick-frame construction. However, Oynagi says, "traditional Japanese post-and-beam design is losing its appeal in favor of more modern construction [methods]."

So this past fall, ads in local weeklies in the Seattle and Portland areas promoted a home design competition "seeking innovative solutions by Northwest designers blending American design and Japanese culture." Competition winners were promised $1,500.

Fireplaces, along with cathedral ceilings, decks, and porches, were among the "American" house features sought in a recent Mitsubishi-sponsored design contest. Mitsubishi will market the winning designs in Japan.

Program materials asked contestants for home designs "that are obviously American in both appearance and function, while still being sensitive to Japanese requirements." Size limitation was the most obvious Japanese influence: participants were allowed to design either a three-bedroom home with 1,200 to 1,320 square feet (and a 27-foot x 30-foot footprint), or a four-bedroom home with 1,320 to 1,600 square feet (and a 32-foot x 36-foot footprint). Several other requirements were listed, including southern orientation; ventilation to compensate for Japan's frequent warm, muggy weather; and, in the most obvious concession to traditional Japanese lifestyle, at least one second-floor balcony for the regular airing and sunning of futon mattresses.

In the same materials, Mitsubishi listed American design characteristics it "admired," including vaulted or high ceilings, fireplaces, well-defined entrances, decks and porches, window trim, and American-style lighting design.

Oynagi reports that, of the 45 designs submitted, 15 were picked for promotion to Japanese home builders.

— Kathleen O'Brien

How Much Is That Kitchen Really Worth?

A kitchen renovation will return up to 165% of its cost in increased home value. A bathroom, up to 175%. Fixing a wet basement can return up to 262%.

For years, remodelers have been quoting such remodeling payback statistics to potential customers as part of their sales pitches. But these projections may be more guesswork than science, according to a recent article in the *Washington Post*. The article, by columnist Kenneth Harney, warned consumers that such studies are often based not on professional appraisals of actual remodeling projects, but on surveys of real estate agents regarding "hypothetical" projects.

Harney, who interviewed several real estate agents who participated in one prominent survey, reported that the agents themselves didn't have faith in the survey. One Portland, Ore., agent told Harney that "so many factors determine what return you might get [on a specific renovation] that I just guessed on all of [the survey questions]." Another agent said she didn't think the numbers meant anything at all.

The problem with such studies, according to Harney, is that they give consumers a false sense of security in predicting the investment value of a home improvement. The actual value of an improvement depends on a huge number of factors, only some of which the consumer and contractor can control. The moral, then, is that improvements, like house purchases, should be made not so much for short-term investment value as for long-term value, and for the pleasure the client will get from living in the improved house. □

Canadian-U.S. Lumber Dispute Not Likely To Affect Prices

From the of rhetoric being tossed around, builders might think that the recent tiff between the U.S. and Canada over taxes on Canadian lumber exports could lower lumber prices. The Bush Administration has objected to Canada's recent cancellation of a tax on its exported lumber, saying the tax is needed to level the playing field between the U.S. and Canadian industries. But most economists think this trade dispute won't affect lumber prices.

Bob Flynn, of Jay Gruenfield Associates, a forest resources and management consultant in Seattle, Wash., says the tax didn't significantly affect prices in the first place since it was absorbed by the Canadian companies, which simply accepted lower profits to stay competitive. Flynn says the companies will probably maintain prices and make more profit rather than try to undercut the market.

More likely to affect lumber prices, most economists agree, is the prospect of reduced supply due to land-use restrictions stemming from environmental concerns. U.S. Forest Service economist Richard Haynes expects these restrictions will raise lumber prices at a rate of about 3% a year over the next 10 years, instead of the 1% rate they would rise without such restrictions. After ten years, however, he expects the rate of increase to drop back to 1% as the use of engineered lumber and recycled paper and wood products eases timber demand.

— Kathleen O'Brien

TAX

Value Those Gifts Carefully — Before the IRS Does

by Irving Blackman

One of the best ways to transfer your closely held family corporation to your kids is to give them yearly gifts of stock. Such a yearly gift, if large enough, has gift-tax consequences for the recipient at income tax time. To keep parents from passing on artificially undervalued stock to their children, the IRS has three years to challenge the value of gifts for income-tax purposes. But after that, you are home free — the IRS cannot challenge the value of the gift and ask for more income tax.

Until recently, most tax planners assumed this statute of limitations applied to the assessment of estate taxes on gifts as well. But a recent court decision in *Stalcup v. United States* extends the statute of limitations *indefinitely* in estate-tax cases, leaving gift valuations open to IRS revision for estate-tax purposes until after the giver's death.

Here's what happened. Between 1977 and 1982, Hollie Stalcup made a number of gifts to her family. In 1982 she died. The estate-tax return her family filed valued the gifts she had given at $96,000. The IRS, on reviewing the return, declared the gifts to have been worth $1,060,000. The estate tax on these gifts was increased accordingly. When the family took the case to court, arguing that the three-year statute of limitations for IRS challenge had run out, the court disagreed, saying that statute applied only to income taxes.

This decision means the IRS has the option to revalue gifts — those given over a lifetime — at any time. The estate tax might be calculated 5 years or 20 years after the gift, but time will not run out on the IRS.

To avoid this nightmare, you should have the value of all gifts of closely held business stock (or other gifts open to challenge as to their value) confirmed by a qualified expert — an experienced tax planner or accountant able to determine the value of your company's stock by standard accounting means. If you have already passed corporate property on in this manner, you should have someone evaluate the value those gifts had at the time. Don't backdate the valuation, however, as that would be fraud. □

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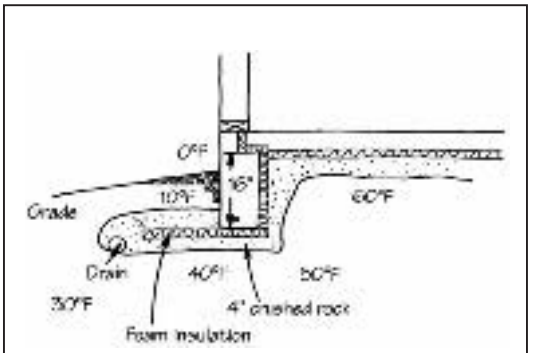
The Deep Scoop on Shallow Foundations

Frost-protected shallow foundations have been used successfully for years in Scandinavia. Protected from frost by foam or another insulation around and under their perimeters, these foundations can be much shallower than normal, saving considerable money in excavation and material costs.

In the U.S., however, shallow foundations have been slow to catch on, primarily because few builders know much about them (see "Shallow Foundations: Beating the Frost," 3/90). But a new report, *Frost Protected Shallow Foundation Development Program, Phase II*, aims to spread the word about this technique.

The report, published by the Society of the Plastics Industry (SPI) and based on research by the SPI and the National Association of Home Builders, provides construction details, a U.S. climate map to aid in selecting foundation design and insulation requirements, and background information on the technique. The report is part of an ongoing project to promote the technique. Phase III will attempt to specify actual construction techniques in the nation's model codes, and will provide a design manual for builders unfamiliar with shallow foundations. The project is being spearheaded by SPI's Expanded Polystyrene Division, which represents polystyrene producers.

Copies of the report are available from SPI at 202/371-5226, for $10. Ask for publication AH-131. □



Despite offering substantial savings in both time and materials, frost-protected shallow foundations haven't caught on well in the U.S. A series of reports from the Society of the Plastics Industry hopes to change this.

This Code Officer Has No Soul

Does your code officer seem to have the emotions of a computer? In Vancouver, British Columbia, you can actually try your luck with the real thing. Last year, that coastal city became the first city to use a computer program using "artificial intelligence" that reviews building plans to make sure they comply with the city's building bylaws.

The program uses a series of "what-if" tests to make sure plans are up to code. So far, city officials claim, the software has made code reviews more accurate and has increased the department's productivity by 10%. And, says Rick Michaels, the head of the residential plan checking group, "developers and designers who bring their plans in for review have more confidence in us." □

Pisa, *continued from first page*

Pisa's historic church bell tower. His description apparently met Badiani's approval, for Badiani promptly invited the Mertes brothers (who have renovated so many religious buildings in the Chicago area that they are nicknamed "The Religious Rehabbers") to Pisa to see the original.

The Mertes brothers accepted, and afterwards were able to compare notes. They found the tower they had renovated — at 96 feet high and 28 feet in diameter at the base — was about half the size of the original. It tilted at the same angle, but, unlike the original tower, which has sunk 7 feet since its construction in the 12th and 13th centuries, the Niles tower has not moved.

The other difference, of course, is in level of authenticity. The original tower in Pisa was built as a church bell tower. The Niles tower was built in 1933 by industrialist and inventor Robert Ilg, who used it to house a water tank to feed his three swimming pools. It now stands in front of the Leaning Tower YMCA in Niles. □