

EIGHT-PENNY NEWS

VOLUME 10 • NUMBER 7

APRIL 1992

Bush Tax Credit Just Might Work

Housing starts could return to prerecession levels, home sales could reach record highs, and the construction industry could rehire up to two-thirds of the workers it has laid off since May 1991. This, says the National Association of Home Builders, is what could happen if President Bush's proposed \$5,000 tax credit for first-time homebuyers becomes law.

Bush made his proposal in his annual State of the Union address in January, and challenged Congress to pass it, along with other economic measures, by March 20. Nothing is certain in an election

year, but as of this writing, the \$5,000 tax credit is showing strong bipartisan support and is expected to pass this spring or summer. It would provide a \$5,000 tax credit for first-time homebuyers (anyone who has not owned a home in the last three years) who buy or contract to build a home between February 1 and December 31, 1992. Taxpayers would receive half the credit in the year of purchase and half the following year.

The tax credit would affect housing demand in three ways, according to NAHB:

- It would make homeownership affordable to some



households that currently can't afford it. Just how many would depend on the exact form the tax credit takes and how heavily lenders weigh this extra take-home pay in their lending formulas.

- By lowering short-term homeownership costs, it would provide extra incentives to renters to purchase.

Single-family home construction may get the boost it has been waiting for if President Bush's proposed \$5,000 tax credit for first-time homebuyers is approved by Congress, say building industry analysts. The National Association of Home Builders projects the credit could push building starts back to prerecession levels and spur record numbers of existing home sales.

- Perhaps most significantly, it would spur many households that are planning to buy a house in the next two or three years to do so this year to take advantage of this one-time tax credit.

These three factors, NAHB predicts, will spur significant home buying, construction

continued

STATE BY STATE

Utah: On January 1 of this year, Utah joined **Connecticut, Virginia, and Maryland** in requiring dual-powered smoke alarms in new and rehabbed residential construction. These states require that houses be protected by smoke alarms that are hard-wired into the home's electrical system as well as backed up with battery power. That way, advocates of the dual-powered alarms argue, occupants can enjoy some protection against failure to replace batteries and fires that occur during power outages.

Michigan: A judge has nixed the town of West Bloomfield's woodlands protection ordinance, saying it violated property owners' rights to use their property freely. The law, which had been passed in 1985 and strengthened in 1989, was among the first major tree-protection ordinances in the nation. It restricted tree cutting on wooded property of three or more acres. The judge, however, ruled that it was too vague and broad. The town plans to appeal.

New Jersey: In January, Governor Jim Florio signed legislation designed to streamline the regulation and interstate sale of modular buildings. The Interstate Compact on Industrialized/Modular Buildings, already signed by **Minnesota and Rhode Island**, aims to provide consistent, interstate guidelines for construction and code approval of factory-built housing. Currently, differences in state standards for such housing often make code approval complex for any factory-built building constructed and sold in different states. The compact seeks to solve that problem by creating one coherent set of guidelines states can subscribe to. □

Radiata on the Rise

As supplies of clear Ponderosa pine like that pictured here become tighter, radiata pine imported from Chile and New Zealand may take its place. The best of the imported radiata, industry observers say, has even, predictable grain and takes paints and stains well.



It's fast growing, competitively priced, and according to some industry observers, up to snuff quality-wise. Western builders, particularly, may begin to see imported radiata pine replacing Ponderosa pine in molding and millwork. Domestic radiata (native to California) is scraggly and crooked, but the radiata grown in plantations in New Zealand and Chile grows straight and tall. It also matures quickly, in 25 to 30 years.

Radiata is expected to fill the supply gaps resulting from domestic timber-cutting restrictions, according to Bob Flynn of Jay Gruenfeld Associates, a forest resources and management consulting firm located in the Seattle area. These restrictions will be felt first on the West Coast, then gradually elsewhere. As supply shortages are felt in these areas, increases in imported radiata sales are expected to follow.

Although radiata has been available since the late 1970s, supplies have become reliable only in the last five years. According to a recent article in *Random Lengths* (published in Eugene, Oregon), conventionally kiln-dried radiata "can perform equally to Ponderosa pine." *Random Lengths'* editors go on to report that radiata's "uniform grain allows for easy application of stain and paint," comparing favorably with Ponderosa pine, which often has different textures. Bob Flynn agrees, saying that clear radiata is well suited to molding and millwork.

A couple of caveats: The *Random Lengths* story warns that radiata can lose some of its dimensional stability if dried too rapidly at high temperatures. And the National Wood, Window and Door Association (NWWDA) warned in a recent newsletter that some of the radiata imported from Chile may be treated with the preservative pentachlorophenol. Builders considering using radiata pine products may want to avoid pentachlorophenol-treated wood and its associated disposal problems.

Prices for radiata pine tend to be lower now than for Ponderosa. But this is expected to change as the imported pine wins a solid niche in the western U.S. market.

— Kathleen O'Brien

Rhode Island Updates Code

Rhode Island updated its One- and Two-Family Dwelling Code effective January 1, 1992, reflecting recent changes in BOCA (Building Officials and Code Administrators), CABO (Council of American Building Officials), and other model codes on which the state code is based.

The most significant change was probably that regarding handrails. These are now required, in continuous form, the full length of any stair that has three or more risers. This section also sets a 25/8-inch-diameter limit on handrail size, and requires a space of at least 1 1/2 inches between the wall and the handrail on rails projecting from walls.

Another significant change regards site grading. Every site must be graded so that any surface water accumulating on it does not cross onto adjoining properties. This section requires that code-compliant retaining walls be built if necessary to prevent such runoff.

Other changes require that wood truss systems meet common industry design and strength standards; that fiberglass shingles be fastened according to the manufacturer's printed instructions; and that coal and wood stoves be UL tested, and not be connected to any chimney venting another appliance. □

From What We Gather

Maintenance and repair jobs made up two-thirds of all remodeling jobs in 1991, according to the National Association of Home Builders. That figure was up 5% from the year before. The ratio of maintenance and repair jobs to more costly (and optional) additions and alterations generally rises during recessions. As things improve, additions and alterations should again account for a bigger portion of the remodeling pie.

Roughly one in four construction workers are union members, according to the Bureau of Labor Statistics, as reported in *Contractor* magazine. The Northeast had the highest percentage of union workers, with 44%, while the Southeast had the lowest, at 7.6%.

A microwave clothes dryer was displayed in the Edison Electric Institute Booth at this year's NAHB show. The standard-sized dryer, the Institute claimed, dries clothes faster than a conventional dryer, uses half the energy, and prevents shrinkage, static cling, and lint.

Design and workmanship determine the water permeability of concrete masonry and brick walls far more than actual building materials do, according to *Water Penetration Tests of Masonry Walls*, a newly revised bulletin from Portland Cement Association (PCA). The booklet details how a wall's weathertightness is affected by a mortar's

air, water, and cementitious material content; mortar-to-unit bond strength; and mortar-joint curing. Copies can be ordered from PCA, Dept. M., 5420 Old Orchard Rd., Skokie, IL 60077-1083.

The density of mahogany is approximately the same as that of the average fruitcake, according to a recent *Harper's* magazine item.

Lumber dealers are scrambling to line up their lumber supplies early to avoid being affected by any lumber shortages caused by cutting restrictions, according to *National Home Center News*. The story said both small and large dealers are anticipating possible shortages over the next two to three years as the market adjusts to cutting restrictions in western U.S. forests.

Lee "Hackman" Breton cut an entire cape-style house in half in 20 minutes and 40.4 seconds, using a saber saw and a selection of Lenox blades. Hackman's other victims and times: a car, 26.1 minutes; an oil tanker truck, 26.6 minutes; a cargo plane, 24 minutes; and a 31-ton boxcar, 1 hour, 15 minutes.

The nation's builders are optimistic, according to a survey of 500 builders at the 1992 NAHB show. Sixty percent of the builders surveyed expected housing starts to rise from last year's record lows. One reason cited: The credit crunch seems to be easing. □

Spec It at the Mall



Philadelphia's Home and Design Center is a mall dedicated completely to home products. Along with retailers, it includes an Idea Center for consumers and a 4,000-square-foot model home that is constantly updated with new products and design.

Operating at opposite ends of the U.S., the Philadelphia Home and Design Center and the HomeExpo! Idea Center in Bellevue, Wash., may mark a trend away from individual product showrooms. Touted as "year-round home shows," the two businesses promote construction products in displays at permanent and convenient central locations.

Besides the obvious time-saving convenience such construction product showcases provide, they may also prove to be a significant marketing tool for contractors. This is particularly true for small to medium-sized contractors, who often want to provide their own showrooms and up-to-date product information services, but generally don't have the resources to do so.

The Philadelphia Home and Design Center is a full-scale "home-improvement" mall, geared primarily toward the consumer. The Center covers 1,800,000 square feet and houses a product showroom and 18 retailers selling

home improvement and construction products. A large lumber store anchors the mall. The Center's showroom (known as "The Idea Place") bills itself as a "resource center for consumers." It includes a 4,000-square-foot model home that is continually being updated with new products, materials, and design.

Visitors at "The Idea Place" may be looking for ideas to relay to their contractors, or they may be do-it-yourselfers. According to Mike Palladino, project director at the Home and Design Center, "Our main shopper is the 'This Old House'-type of customer — someone looking to learn more about building."

At the country's other end, the 6,000-square-foot HomeExpo is a more conventional "specifying showroom," located in a suburban mall outside Seattle. Over 170 manufacturers display, rather than sell, their construction products in individual booths.

According to HomeExpo

president Les Savitch, the showroom serves mainly the remodeling contractor and client, although custom homebuilders, high-end production builders, architects, interior designers, and the general public also use it. HomeExpo is designed to stimulate ideas in consumers and act as a specifying showroom for local contractors. HomeExpo also offers a loan approval service that shops for financing on behalf of contractors and their clients, and provides a meeting room for contractor/client conferences.

Both showrooms hope to open branches in other locations: the Home and Design Center in Fort Lauderdale, Chicago, Detroit, and Washington, D.C.; HomeExpo in Palo Alto and Walnut Creek, Calif. If the idea catches on, small contractors and their clients may find it much easier to view and choose products for their new homes and remodels.

— Kathleen O'Brien

Shredding It On Site

As wood becomes more valuable and landfill space more expensive, more contractors are looking to reduce their volume of wood waste. One way is to use a grinder like that pictured here: a Weima Low-Noise Wood Scrap Grinder, powered by a generator (behind it on the trailer). The grinder chews up common job-site scrap lumber into chips, reducing the volume of the waste by up to 70%. If the wood is free of CCA, lead-based paint, or other contaminants, the chips can usually be recycled.

Common end-products include animal bedding, manufactured wood products, paper, and landscaping materials. (See "Turning Trash Into Cash," 3/91.)

Other Weima wood-waste processors include the Guillotine, which automatically directs scrap lumber to a standard rip or panel saw, and a Briquette Press, which presses wood chips into briquettes that can then be burned. For more information, contact Woodtech Machinery, 26B Chapin Rd., Pine Brook, NJ 07058; 201/882-0073. □



Bush, continued

job growth, and new construction in 1992. If Bush's plan goes into effect, housing starts are expected to rise 18% from 1.185 million to an estimated 1.4 million; existing home sales, which often result in remodeling expenditures either just before or in the months following the sale, would rise 28% from 3.37 million to a record 4.3 million; and 415,000 construction jobs would be created.

Obviously, all this would be good news for recession-weary contractors of every size and ilk. New-home builders adept at marketing and financing affordable housing would benefit most immediately, says NAHB economist Robert Villanueva. But other builders, as well as remodelers, would likely benefit from the general surge in activity. Remodelers might actually see the longest and steadiest benefit, as new

homeowners repair or improve their purchases over the next two or three years.

The plan does have a few potential drawbacks, according to Villanueva. For one, it will probably create a drop in housing starts and sales in 1993 and 1994, compared to projections for activity without the credit. In addition, if it generates too frenzied a buying rush, it could push up prices, deflating some of the demand it is meant to create. Finally, if it is accompanied by other measures, such as other tax cuts, that increase the federal deficit, it could put upward pressure on mortgage rates, which could, in turn, decrease affordability and demand.

Overall, however, says Villanueva, for the construction industry, the tax-credit proposal "is very attractive and positive. It can have a significant impact without costing that much." □

First-Time Buyer Share Rises

First-time home buyers continue to account for an increasing percentage of home purchases, according to the January issue of *Housing Economics*. For detached homes, the number of first-time buyers has increased for the third time in four years

— from 29% in 1988 to 35% in 1991. This reverses a decline seen through the mid-1980s. It may bode well for remodelers: First-time buyers tend to buy existing homes (rather than new), and often remodel within a few years of purchase. □

TAX

Invaluable — and Legal — Home Office Deductions

by Mark E. Battersby

Deducting the expenses for a home office means more than merely writing off part of the mortgage, rent, and utility costs. It can also mean related benefits, such as being able to deduct the expense of traveling to and from other places of business.

But writing off home offices has always been a tricky business that invites IRS audits. Fortunately for builders, the courts have recently made it easier for builders to legally deduct home offices.

Under our current tax rules, to write off a home office, it has to be your "principal place of business." And the IRS, using what is known as the "focal point" test, has often defined the principal place of a small contractor's business as whatever the "focal point" of his operation is — that is, the place where services are provided to clients, and where revenues are generated. This definition has often meant that job-site

locations become defined as the business's focal point, making the home office a non-principal place of business.

So it was with a recent case, in which a contractor worked at three different sites for approximately 30 to 35 hours per week, and used his home office (in his apartment) for 10 to 15 hours per week to perform essential administrative and educational business tasks. Like many contractors, he used his home office because the job sites provided no office space.

Using the "focal-point test," the IRS ruled that this contractor's principal place of business was the work site, and disallowed his home office deduction. Fortunately, when the contractor appealed, the U.S. Tax Court substituted what it called a "facts-and-circumstances" test. This considered facts and circumstances of the case in light of the nature of the con-

tractor's business. The court ruled that, given the facts and circumstances of the contractor's business and of the work sites, it was clear that the contractor needed some sort of non-work-site office. It then ruled that he needed to spend only a substantial amount of time, rather than the majority of his time, in his home office in order to deduct it. The U.S. Court of Appeals for the Fourth Circuit agreed and upheld his deduction.

One sour note in these decisions was a dissenting opinion from one of the Appeals Court judges, who argued that a taxpayer can have only one principal place of business.

A broad application of the facts and circumstances test would eventually undermine such an emphasis on the notion of a principal place of business, and might pave the way for numerous home office deductions. In the meantime, however, home office expense deductions will remain tricky. □

Mark Battersby is a financial and tax consultant in Ardmore, Penn.