NEW ENGLAND UPDATE

The New England Economy

Despite Growth, Region Lags Behind Nation

by Ted Cushman

The national economy has been on the upswing since early 1993. Nationwide, the home building industry is healthy, with some areas booming and most seeing steady growth.

But the Northeast is a different story. Here, the recovery has been inconsistent, and while builders in some local areas are busy, those in other areas have seen only a modest improvement.

The Eighties: High Ride, Hard Fall. Why the mixed economic news? The source of New England's lackluster performance lies in the last decade, explains economics professor Karl Case, who serves on the board of directors of the Federal Reserve Bank of Boston."Part of the reason that construction hasn't picked up is because we overbuilt," says Case. "In greater Boston, as an example, we could sustain about 12,000 starts. [At the peak of the boom in the 1980s,] we got up to 25,000 starts."

By 1987, construction employment in Massachusetts had gone from 100,000 to 150,000, says Case (see chart above). "Then we went from 150,000 to 60,000. We had to give back all the temporary jobs, and then we gave back more. The construction industry went through a depression." The U.S. as a whole lost 1.9% of its total jobs in the last recession. But "by the end we had lost 12% of the jobs in this region," says Case.

Following this devastating crash, New England rebounded slowly, along with the rest of the country. "But the recovery has been really uneven," Case explains. "The job growth has been steady, but it is benefiting eastern Massachusetts, Boston, and western Connecticut, but not eastern Connecticut. New Hampshire is doing well, Maine is doing well, but Rhode Island is not doing well. Even around Boston, in the manufacturing towns, we are not doing great."

As Mass. goes ... Accounting for over half of all the region's economic activity, urbanized Massachusetts anchors the

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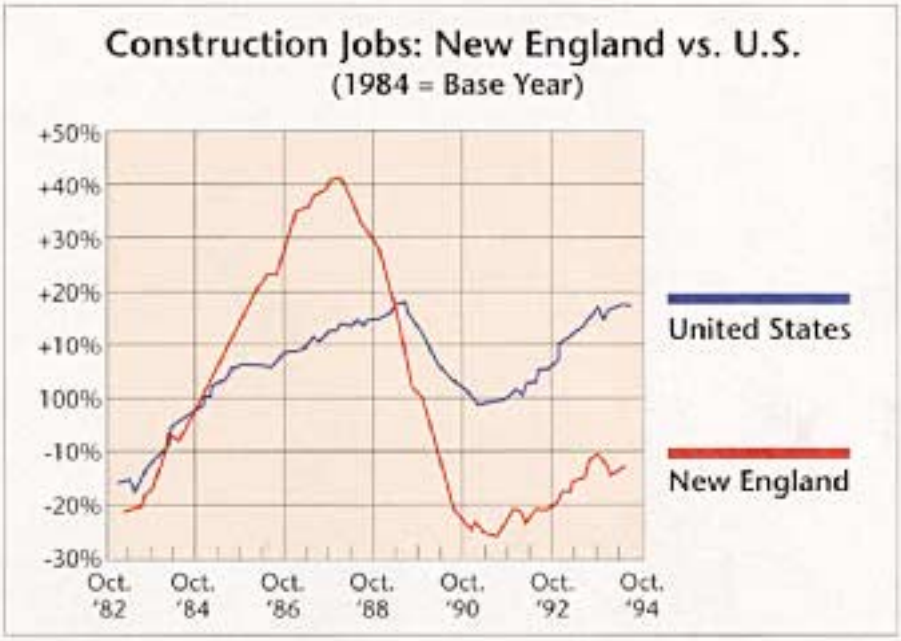

Construction employment grew much faster in New England than nationwide during the 1980s, then plummeted when the recession hit. Current job growth lags behind the nation.

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New England Economy,

regional economy. The same patterns seen there are found "across the board," says Case.

And according to a state government report, Massachusetts has some serious problems that were masked by the last building boom, but are lingering in the present recovery. High-tech computer and electronic jobs (especially in the defense industries), along with information-processing and financial service jobs, had displaced traditional manufacturing jobs for many years. Now, competitors from overseas have eaten into the high-tech markets, and advancing technology is eliminating many financial and information jobs. Meanwhile, defense cutbacks are eliminating more jobs. Add this to the continuing slide in traditional manufacturing, and you've got a recipe for long-term decline.

The new jobs that have been created in the recovery are mostly lower-paying clerical and service jobs, not high-wage manufacturing jobs. So while some managers and professionals have rising incomes presently, New England wage levels in general are barely keeping pace with inflation.

It's the successful baby-boom professionals who are now driving the housing market. Throughout the region, high-end housing is where the action is. "Look at where the big builders are building," comments Case. "The high-end suburbs are hotter'n a firecracker. In the low end, property values are 35% below peak, and ain't nobody building."

Clouds and silver linings. The other New England states reflect the Massachusetts experience in different ways. New Hampshire, with no state sales or income tax and with relatively few restrictions on business or land development, tends to go through wider economic swings than its neighbors. Currently, New Hampshire is riding the Boston-area boom and has the region's lowest unemployment at 3.1%.

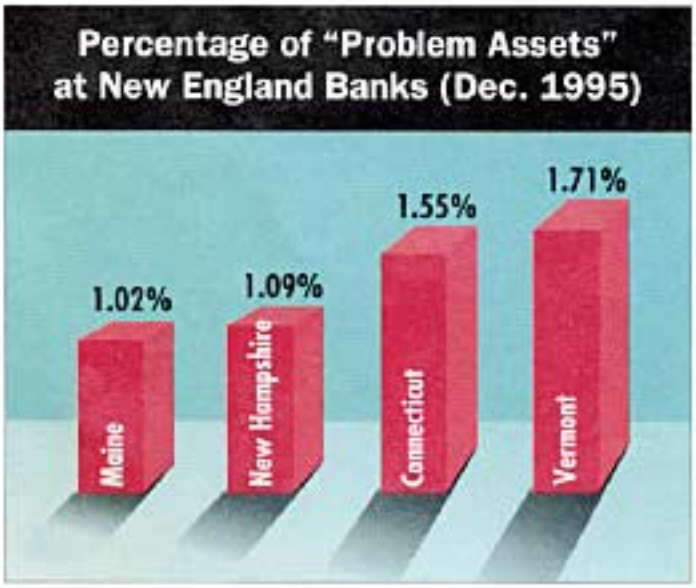
Connecticut, by contrast, faces a cloudy future. Only about 14% of the jobs lost in the recession had been regained by mid-1995, and jobs continue to vanish in banking, insurance, defense contracting, and manufacturing. While retail sales rose nationwide in 1994, they fell in Connecticut — and housing starts fell 22% between 1994 and 1995. The state's economy is expected to lag behind the U.S. into the next century. Only in western Connecticut, which feels the influence of New York City's financial markets, are jobs and incomes rising.

Vermont and Maine are also trailing New Hampshire, says Burlington, Vt., economic consultant Jeffery Carr. "I can document job growth," he says, "but we lost a lot of $40,000-a-year jobs in the defense industries and replaced them with $28,000-a-year jobs." The economic climate favors small remodeling projects more than big new construction commitments, he observes: "People are cautious this spring."

Future prospects. The world economy is poised for a long expansion, based on technological progress and increasing world trade. The U.S. is expected to share in that growth. But New England, more than other regions, is vulnerable: If the U.S. economy slows, or the Fed decides to put on the brakes, a regional recession is possible.

With population declining and jobs and incomes rising only slowly, high-end building and remodeling are the main bright spots for New England contractors. Many contractors moved or went out of business during the recession, so those who are still around have plenty of work. But the underlying softness in the economy means caution is advisable. Some tips:

- **Keep an eye on sales.** If your business is going to slow down, the time to realize it is before the work runs out. When sales drop, get them back up or be ready to lay off people.
- **Watch out for debt.** Compared with the rest of the country, New England banks are still a little shaky (see chart at left). If you're in the hole when things slow down, your banker may not be in a position to bail you out. ■



Despite improvement, four New England states rank in the top ten in "problem bank assets" — bad loans and bank-held property. Vermont and Connecticut banks rank second and third nationwide.

Building in a Bubble

Vermont Contractor Makes His Own Weather

Like a beached balloon, the inflatable tent with its site-built airlock fends off the Vermont cold. Birds at left are geese, not penguins.

Inside the structure, the Roundtree Construction crew works in comfort (left). At right, a truck exits through the airlock tunnel.

Winter can create big problems for a building project. Snow and rain can damage finish materials, and freezing temperatures can harm concrete and mortar. When snow starts to fly, projects slow down and quality suffers.

So when Roundtree Construction in New Haven, Vt., started a high-end custom project in November of 1994, contractor Dan Morris decided not to take the weather Nature offered him. Instead, he made his own. Morris set up an inflatable tent, heated it to 55°F, and spent the whole winter inside.

The project, an expensive custom pool house designed by a California architect, needed a lot of protection from the weather. "We had a tremendous amount of brickwork," explains Morris. In addition to the ordinary concern for keeping bricks and mortar above the freezing point, Morris had another worry: The designer had specified an unusual latex-modified cement parge for the surface of the brick. "It's a very sensitive process," says Morris.

The rest of the project was equally complicated. The building's structure included both steel and engineered wood beams, with complex fasteners and connectors. And the roof was framed with antique wood timbers, stained and sealed.

"We would have needed to build some kind of weather protection for the masons anyway," points out Morris. "This way, we didn't have to deal with that. But the luxury of the tent is, you don't even have to close in the building before you start finish work." Morris's crew did all kinds of work inside the tent at normal production rates, including prestaining the roof beams and "a tremendous amount of custom tile and stone work."

How it works. The tent resembles a large hot-air balloon anchored to the earth (see photos above). Essentially just an enormous bag made of tough plastic, the bubble has no supporting structure; instead, it is inflated with a large fan. A propane heater warms the incoming air. (The heater is vented outside the tent, says Morris — no combustion products enter the work space.)

The tent was custom fabricated by The Fabric Shop of Monmouth, Maine (207/946-5513), who also supplied the heater and fan as a rental. Morris's crew built an airlock for the structure out of wood and plastic, to allow delivery trucks inside.

Costs. Including the purchase of the tent, the equipment rental, and the cost of heating fuel, Morris estimates the big bubble added $35,000 to the project's cost. However, he points out, the tent also saved money by making it unnecessary to build and tear down shelters for the masons. And he credits the comfortable, dry environment for significant productivity gains. ■

Design-Builder's Notebook: One Man's Trash is Another Man's Treasure

by Andrew DiGiammo

One of my first steps in any design-build remodeling project is a complete site evaluation. I draw the existing property in detail and examine every aspect of the existing conditions.

In addition to identifying possible problems before they come up, this early evaluation can also reveal opportunities. In a recent project, for example, I saw the chance to re-use the lumber in a house that was slated to be demolished.

The floors of the old house were framed with 2x8 joists 2 feet o.c. When I took a closer look and saw dense, straight-grained Douglas Fir, I couldn't see the point of burying it in a landfill.

With a little thought, I was able to include the existing joists in the new house design. Combined, the old joists from the original first and second floors were enough to frame the new first floor — although I did have to put an extra girder underneath to shorten the spans. Undersized by today's standards, the old 2x8s had sagged over the years. We just flipped them over, and that sag became the crown.

We also used the old 2x6s from the original roof system to frame the porch roof for the new house. With tongue-and-groove pine nailed on for roof sheathing, the porch looks like it's been there for years. (I also laid 1/2-inch plywood over the pine — it adds structural strength and keeps the roofing nails from poking through.)

The money we saved on disposal fees and lumber amounted to several thousand dollars — enough to clinch the job for me. And the customers, who had a sentimental attachment to the original house, were happy with the thought that some of it would survive as part of their new home.

To me, this case illustrates the power of the design-build method. As a contractor building another architect's design, I wouldn't have been able to use the old joists — they wouldn't work without a design modification. But since I was both the designer and the contractor on this job, I was able to use existing conditions to my advantage in meeting the customer's needs. That's more satisfaction — not just for the customer, but also for the builder. ■

Design-builder Andrew DiGiammo plies his trade in Rhode Island and Massachusetts.

Where some might see a demolition expense, the author saw an asset: dense-grained Douglas fir that could be salvaged and re-used.

Grossman's Beats a Retreat

Lumber Retailer to Close 60 Stores

If you're giving someone directions to your place, don't tell them to turn left at the Grossman's Lumber store. Pretty soon it won't be there.

The building materials retailer, saddled with aging stores in nontrendy locations and struggling to modernize its inventory and sales operations, has been waging a desperate battle against tough competition from big-money national chains like Home Depot. Now, Grossman's Inc. has decided to abandon the field, closing all 60 stores in its Grossman's Stores Division.

Inventories of the closed stores will be sold off over ten weeks. By the time the move is completed, Grossman's labor force will be cut from 3,400 to 1,800.

Although the Grossman's stores will be no more, Grossman's Inc. intends to stay in business. As part of the restructuring, it has obtained $33 million in new loans, which it plans to finance by selling many of the closed store properties. The money will be used to expand the company's other two store chains, Mr. 2nd's Bargain Outlet and Contractors' Warehouse. There are currently 24 Mr. 2nd's stores in Massachusetts, Rhode Island, and New York State, and 15 Contractors' Warehouse stores in California, Nevada, Indiana, and Ohio.

As for the laid-off employees, they'll be around. As one Grossman's cashier told a Burlington, Vt., shopper in April, "We'll see you next week at Home Depot." ■

Rhode Island: Septic and Wetland Changes Ahead

Currently, new septic systems in Rhode Island must be designed by a licensed engineer or land surveyor. The application then goes to the Department of Environmental Management (DEM). "Depending how busy they are, it might sit there for a week or for two months," said a Rhode Island builder. DEM employees have to visit the site before approval to evaluate soil and site characteristics, as well as during and after construction to verify compliance.

But under changes recommended by a blue-ribbon panel and endorsed by the governor, the state would issue a septic designer's license to qualified individuals. Licensed septic designers would be allowed to take responsibility for site evaluation and system design, as well as verification of correct installation. The state would conduct spot checks of field practices, and designers who violated state standards could have their licenses revoked.

DEM associate director Ed Simansky said the change will free up DEM personnel to "focus on technical assistance, which now we cannot do."

Workable wetland process. The wetlands permit process would also be reformed, with a statewide general permit issued for certain types of activities. "We're not interested in decreasing our protection of the environment, but we want to make the process more workable," said Saminsky. The proposal would speed up an application's approval or disapproval, he said, and modify the way wetlands are delineated. ■

Maine: What's That? An Impact Fee?

A statute allowing towns to assess fees on new construction to offset the costs of growth has been on the books in Maine for almost ten years, but has never been invoked. So when the town of Standish, near Portland, considered a proposal to set impact fees for residential construction, there was a lot of excitement.

The town council ended up rejecting a proposal to assess an impact fee on anyone taking out a residential construction permit in Standish. But they did pass a measure to assess fees on residential developers for road improvement, based on the expected traffic created by future residents. "We don't think that's revolutionary," said town manager Scott Cole.

A third measure, which would cap the number of residential permits at 60 per year in the town, will be put before Standish voters as a referendum in June. The town already has a permit cap set at 75.

Builder opposition. Like virtually all home builder associations nationwide, Maine's HBA opposes impact fees. HBA executive officer Kendall Buck criticized even the road ordinance as too simplistic, saying that the measure took into account only the number of people who would frequent a location, not the distance they might have to travel on town roads. He added that the measure would unfairly require builders and home buyers to bear the cost of town road and service improvements that would benefit all Standish residents.

Town manager Cole defended the road-improvement measure, saying, "It is not really different from other towns. The expectation is that the developer will pick up the cost of the road upgrade."

And although the council voted against the plan to assess an impact fee of $420 on each new house to offset increases in the town's ten-year capital spending plan, Cole countered HBA assertions that the plan had legal flaws. "It was air-tight," he said. "I think it would have held up."

According to the town manager, council members voted against the plan in part because they thought it would seem "mean-spirited" to charge a special fee to new residents. "There's a general feeling that we're all in this together," said Cole. ■

A move by the town council of Standish, Maine, to assess impact fees for new construction had local builders in an uproar.

Vermont Utilities Push Energy Conservation

Cash Incentives for Efficient Buildings

Builders and home buyers in Vermont now have a ready source of help with energy-related design and construction problems. They also have an $800 incentive to make wise energy choices.

Under a program managed by Central Vermont Public Service (CVPS), homes that achieve a "Four Star" energy rating from Energy Rated Homes of Vermont (ERHV) qualify for a $450 cash payment and a $350 fee waiver. Green Mountain Power and the Washington Electric Co-op offer similar programs.

As CVPS official Jeff Gephart explains it, the builder or homeowner first signs an "Energy Assessment Services Agreement" with the power company. Then, an ERH specialist is assigned to review the home plans and make a preliminary "Energy Star" assessment. Based on an analysis of its insulation, lighting, space and water heating, windows, and ventilation system, a proposed house can receive anywhere from a One Star to a Five Star rating.

Houses that earn a Four Star or Five Star rating qualify for the utility incentives. If the plans don't meet that threshold, the utility and Energy Rated Homes offer suggestions for upgrades: improving the insulation, choosing more efficient heating equipment, lighting, and appliances, buying better windows, and so on. The house as a system has to conserve energy, explains Gephart, but no one element is required.

As construction progresses, ERH inspects the house to make sure that the specified details have been included according to plan. At the end, a blower-door test confirms the home's tightness.

The $800 incentive has an immediate appeal. The promise of long-term energy savings, and possibly an Energy Efficient Mortgage, adds to the attraction. Since CVPS started its program last November, says Gephart, participation by home buyers is running at about 50%. For more information, call CVPS at 800/649-2877. ■