

Notebook...

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EDITED BY DAVID DOBBS

Strong Economy Means Tougher Competition

NAHB economist predicts stable growth, stiff challenges

When David Seiders speaks, builders listen — or at least they should. As chief economist for the National Association of Home Builders, Seiders analyzes the economy from a builder's perspective, without glossing or cheerleading. So contractors took special notice when Seiders recently predicted that the present economy of moderate, steady growth, low inflation, and low interest rates will likely last through the decade. If he's right — and he usually is — then the construction industry is in the midst of what will be the longest expansion in U.S. history.

"This sounds like great news, and it is," Seiders wrote in the June issue of NAHB's *Housing*

Economics. "But a stable expansion presents its own set of challenges."

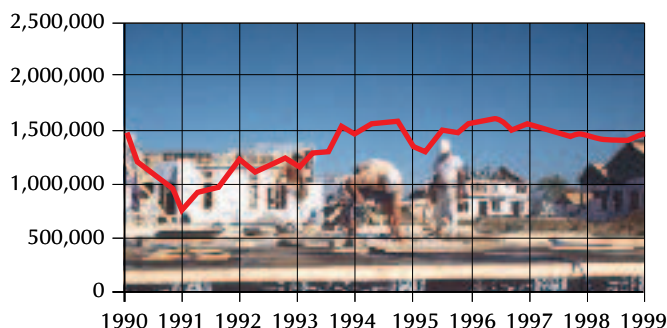
In his outlook for 1998 and 1999, Seiders made two noteworthy assertions: 1) that the present modest but sustainable economic expansion is a "brave new world" that does not fit the classic boom-and-bust economic model; and 2) that rather than making success easy for builders, the remaining years of this expansion will punish those who don't operate efficiently and target their markets well.

The Brave New World

Since late 1993, housing starts have hovered around 1.4 million per year (1.7 million including mobile homes), while total residential construction spending, which includes remodeling and maintenance, has grown modestly but steadily. Meanwhile, the national economy, as measured by the gross domestic product, has grown at rates between 2% and 3.5%, with unemployment running 5% to 6%. All of these numbers, Seiders and many other economists agree, should hold up as long as inflation doesn't heat up. And that, says Seiders, isn't likely for several reasons:

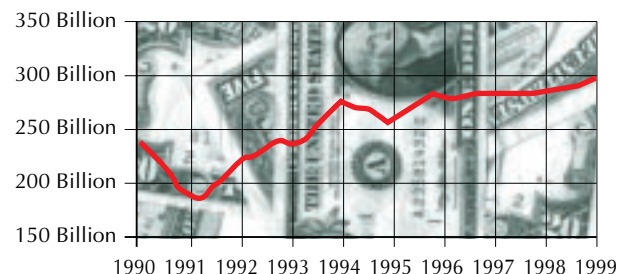
- The Federal Reserve Board, which present chairman Alan Greenspan is scheduled to head until the year 2000, is committed to aggressively checking inflation

Total Housing Starts



Source: U.S. Bureau of the Census

Residential Fixed Investments



Note: Includes construction-put-in place for new single and multifamily structures, mobile home production, brokerage commissions on home sales, and improvements to existing structures (additions, alterations, and major replacements). **Source:** U.S. Bureau of Economic Analysis.

A sustainable growing economy through the century's end, says NAHB economist David Seiders, should keep contractors busy — but in a toughly competitive environment.

Lone Star State Launches 100% Recycled Decking

It's not surprising that Texas is the world's biggest producer of plastic, since the state sits on a huge reserve of the natural gas used to make the stuff. But Texas also has what may be the biggest pile of durable wood fiber on the planet. The mountain of "cedar" fiber, a byproduct of the cedar oil industry, sits in the middle of a county



ChoiceDek, a new deck material made by combining plastic resins with wood fibers, is said to have the stability and durability of plastic but the natural, weathered look of wood deckings.

the size of Rhode Island, populated by a mere 2,400 people.

A Texas firm called Advanced Environmental Recycling Technologies (AERT) is taking advantage of this accident of geography by combining recycled plastic and waste fiber in equal proportions to create ChoiceDek, a decking material that cuts and nails like cedar, grays naturally like cedar — and is said to last longer. In what sounds like the ultimate tall tale, AERT spokesman Buddy Wilkinson says, "We're making a 16-foot board from a 10-foot tree."

The tree the fibers come from is actually an evergreen called "ash juniper," a scrubby invader that area ranchers clear routinely to keep their rangeland free for sheep, goats, and cattle. Left to rot on the plains, the tree decomposes in time to just the heartwood. The Texas ranchers who use the juniper heartwood for fenceposts swear it lasts for hundreds of years.

But harvesters also gather 15-year-old deadwood for local mills that grind it up and extract a fragrant oil. The remaining fiber is stockpiled and sold for mulch and animal bedding — and now, for plastic lumber.

John Junod, a spokesperson for Geo. McQuesten of Billerica, Mass., says, "You've been using this product for ten years if you've been buying ThermaTrue doors — they use it in all their door sills." Junod says ChoiceDek offers advantages over both wood and plastic competitors: "It's lighter, more rigid, and easier to handle than other plastic lumber. Compared with wood, there's no splitting or cracking, no cupping or warping, no insect damage, no chemical contamination, and no maintenance."

For information, contact Geo. McQuesten (800/752-0129), Weyerhaeuser Corp. (612/893-1717), or AERT (915/446-3430).



Offcuts ...

A Baltimore County developer is paying a \$75,000 settlement for not making its new condominiums accessible, according to a report in the *Baltimore Sun*. The developer was sued by two disabled owners for not making first-floor units accessible by wheelchair, as required by federal law. The developer settled out of court for \$75,000, which will be used to retrofit the condos in question.

The only job worse than construction is that of a cowboy, according to a survey of 10,000 high school students that ranked construction 251st out of 252 possible jobs. NAHB's *Nation's Building News* reported the results of the ABC News survey in a story that described widespread shortages of skilled labor shortage. To judge from the survey results, not many among the 16- to 19-year-olds entering the job market will be eager to take up a hammer.

North Carolina has reportedly banned the use of EIFS (Exterior Insulating and Finishing System), also known as "synthetic stucco," after 33 of 35 homes tested showed moisture problems. One inspector was able to push an 8-inch ice pick completely through a rotted wall.

Know Who You're Hiring

by Kathy Price-Robinson

Imagine this scenario: You need another carpenter — fast. Your plumber tells you about “Dave,” a carpenter he met who wants steady work. Anxious to start a kitchen remodel that keeps getting delayed, you interview Dave, find him qualified, and hire him. On his first day, Dave steals drugs from the homeowner’s medicine cabinet. When she confronts him, he becomes verbally and physically abusive. When she learns later that Dave has a criminal record that includes theft, drug abuse, and battery, she sues you.

Can you be found liable?

The answer is “Yes,” according to a task force report on employee background checks by the national law firm of Littler, Mendelson, Fastiff, Tichy & Mathiason. According to the report, the laws of negligent hiring are based on the principle that employers have a duty to protect customers and others from “injuries caused by employees whom the employer knows, or should know, pose a risk of harm to others.”

But how could you have known about Dave’s past?

“It’s public record,” says Judie Smith, a personnel consultant in Arroyo Grande, Calif., whose firm checks criminal records of potential employees. Smith has used these checks to uncover crimes including theft, burglary, illegal possession of a gun, assault, and domestic abuse. Her discoveries enabled the potential employers to avoid what might have been major lawsuits.

How bad can it get? Consider, for instance, the furniture company whose new employee delivered furniture to a customer, then returned later with a knife to viciously attack her. When a jury found that the employee had an extensive criminal history and a long history of mental problems, the fur-

niture company got walloped with a \$2.5 million judgment for negligent hiring. Even in less violent cases, an unpleasant incident caused by an employee with a questionable background can harm your reputation. Background checks can help protect you from these dangers as well as from thefts or other affronts committed against you or your other employees.

Checking Up. You can do some of these checks yourself. Start by including a question on your job application form that asks potential hires whether they’ve been convicted of any felonies. Also ask for (and call) references and former supervisors. In addition, in most counties a phone call to the county courthouse will tell you whether a person has any convictions in that county.

Another option is to hire a personnel consultant



to check for you. A simple criminal check costs about \$40 per county; the full menu, including reference checking, credit checks, verification of past employment as well as checks for criminal records, might cost as much as \$500 per job applicant.

Whether you hire it out or do it yourself, running background checks will do much to buy peace of mind as well as legal protection. As Richard Paynter, an attorney in Santa Barbara, Calif., puts it: “For that, 40 bucks is cheap.”



Kathy Price-Robinson is a freelance writer on building issues, and lives in Arroyo Grande, Calif.

Builders Give Form to the Home Office

by Leland Stone

A “home office” used to mean a few files from work scattered across the kitchen table. But these days, home is the office for millions of Americans, and they’re tired of sharing desk space with the toaster.

Estimates of how many people use home offices vary. A 1995 survey found 8.4 million salaried and 6.4 million self-employed people had done work in their homes during the week of the survey; other recent estimates peg the number of households with home offices at between 30 and 40 million. Whatever the exact numbers, they’re clearly growing toward a critical mass. As Richard Read, a home designer in Arcadia, Calif., puts it, “Providing a home office isn’t yet as common as indoor plumbing, but it’s pretty close.” And contractors are starting to respond in a number of ways.

Meeting the market. Brookfield Homes, a Canadian developer active in several major U.S. urban areas, is one of a number of larger firms now incorporating home-office options into many of its standard designs.

“Research with both potential and past buyers showed a strong preference for having an office at home,” says Carina Hathaway, vice-president of marketing and sales. “So we’ve actually taken space away



Contractors can capitalize on the growing work-at-home trend by offering dedicated workspaces such as this one to their clients.

from formal living rooms in some of our floor plans to create an office.” Many of Brookfield’s models include an office/bedroom with an exterior door to provide a separate entry — an important feature for any home-centered business that receives visitors. Other design tweaks include a half-bath or a small seating or entry area, an expanse of wall with windows no lower than desk height to accommodate office furniture, or extra soundproofing in walls between the office and living areas. Hathaway says the small cost of making such changes has been offset by quicker turnover of the units that include office space. In addition, Brookfield and other builders have found that while some buyers just want the space, others hire the builder for upgrades such as built-in cabinets, desks, counters, or other office furnishings.

Demand for office space is not limited, however, to high-end homes. Hathaway has found, for instance, that first-time homebuyers are particularly likely to want home office space, since many entrepreneurs and self-employed people tend to be young. For such clients it’s often enough simply to provide a well-defined work space with conveniently located phone jacks and electrical outlets, and perhaps a separate entrance. Such features may not justify jacking up the selling price, but they may make the house easier to sell.

Hathaway says that even people without businesses or computers find a home-office space useful. “If the area isn’t dedicated to work,” she says, “it’s quickly dedicated to hobbies or other pursuits.” She says this is especially true for people with kids — a quiet, organized space is just as suitable for doing homework as it is for writing sales reports.



Leland Stone is an associate editor at the Journal of Light Construction.

Offcuts ...

OSB (oriented strand board) production in North America is up 24% this year, according to *Random Lengths*, an industry newsletter. OSB accounted for 38% of the 36 billion feet of structural paneling made in North America in 1996, and is expected to increase to 45% in 1998.

But you only have to flush it once. At least, we hope that’s the case with the \$23.4 million toilet installed in the space shuttle *Endeavor*. Supposedly the cost was initially estimated at only \$2.9 million — but that was before a few changes.

Tax Talk ...

Selling or Buying a Business

by Len Pytlak, C.P.A.

Selling your business or buying someone else's has important tax consequences. If the business is a corporation, the form of the sale can create complications that don't come up in the sale of a partnership or sole proprietorship.

In making the main decision whether to purchase the company's assets or the shares of common stock, the buyer and seller have opposite interests. The seller should peddle the common stock certificates of the company, but the buyer would prefer to purchase the assets of the company (land, buildings, equipment, and so on). That's because the form of the sale affects the seller's *current* tax situation, and the buyer's *future* tax position.

Buying the assets will allow you to take tax deductions (such as depreciation) for all or part of the purchase price. The deductions will reduce your taxable income in future years — up to 40 years for buildings, 3 to 7 years for equipment.

If you purchase the common stock, however, you get no tax deduction until you sell or shut down the business. This could be 20 or 30 years down the road, at which point the difference between the cost of buying the stock and the price it sells for is taxed as capital gains.

Selling assets is not such a good deal for the seller, because unlike common stock, which is owned by the individuals who own the corporation, the corporation owns the assets. When the assets are sold, the corporation will have to pay tax on any gain at ordinary tax rates (up to 39% for higher brackets), not at the better capital gains rates (from 15% to 28%).

In addition, the corporation cannot deduct any distribution of proceeds to stockholders, who nevertheless have to report it as income and pay taxes, in addition to the taxes already paid by the corporation on the proceeds of the asset sale.

On the other hand, if the stockholders sell their common stock to the new owners, the stockholders get all the money directly. The sellers pay only capital gains tax on the proceeds. This way the sale is only taxed once.

Sell stock, buy assets. If you plan on selling a corporation, sell your common stock, not the assets. If you are buying a business, buy the assets, not the common stock. Or, as you negotiate the sale, try to come to some adjusted price in the middle, so that buyer and seller share in the tax advantages and disadvantages.

Strong Economy

continued

tion by hiking interest rates early but lightly and by pressing markets to do the same.

- The declining federal deficit (due to be balanced by the year 2002 under the budget bill passed this summer) further reduces inflation pressures and makes more money available for private investment.
- Mortgage and lending markets have been made more stable, by new rules aimed at preventing the loose loans of the 1980s, and more widely accessible, by diligent efforts to end discrimination in lending. These trends will reduce bad loans while spreading the economic expansion around.
- Finally, says Seiders, "stability tends to feed on itself" by creating a measured confidence in the economy.

All of these factors led Seiders to conclude in NAHB's June 1997 *Housing Economics* newsletter that "It's ... likely that the U.S. economy has entered a brave new world where the classic business cycle is the exception rather than the rule." Or, as he put it a month later, "Recent experience suggests that things really are different this time through."

Stiffer Competition

For builders who got stung in the 1990 recession, such predictions of stability are good news. Yet Seiders says this stable, modest growth exerts considerable competitive pressure on contractors.

Low inflation, for instance, will mean that increases in home values will likely remain modest, making most buyers price-sensitive and value-conscious — and less inclined to spring for overpriced homes. And, healthier credit markets, which have made it easier for builders and developers to borrow, have created a highly competitive atmosphere where many construction companies are competing for limited business. As a result, says Seiders, "the competitive environment should remain intense," with many contractors competing to win jobs from value-conscious consumers.

This, of course, is how a healthy market is supposed to work — "producers" succeed by efficiently providing good value to consumers. So producers of construction services will have to work both hard and smart to prosper. Throwing spec houses on overpriced lots won't work. Rather, says Seiders, "Firms that concentrate on market analysis, focusing on 'what and where,' will continue to outperform the industry at large. Luck will play a small role."

