Notebook...

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A Building Boomlet in the Inner Cities

by Kathy Price-Robinson

While some developers and builders spend their days hunting for housing lots in outlying suburban areas, a few are pointing their pencils and power saws in the opposite direction, back into the inner cities.

It may be too early to call it a full-scale building boom, but "boomlet" may describe a recent upsurge in inner-city, single-home building projects. In the past few years, the demand for building permits has multiplied in interior parts of such cities as Cleveland, Detroit, and Houston from which the middle class hightailed it for the suburbs decades ago. For developers and one-off builders alike, the upswing has created both new opportunities and challenges.

Inner-city home construction is on the rise, largely due to an easing of restrictions by city governments seeking to increase the residential tax base. Low interest rates and a growing population of empty-nest boomers are also fueling the upswing.

According to urban planners, developers, and real estate agents, several factors are driving an increased demand for central city homes and smoothing the way to building them.

First, the need to increase middle-class residential tax bases has motivated city bureaucracies to ease restrictions. While this only happens "when conditions have become so bad that everybody recognizes it," says Bob McNamara, a planner with the National Association of Home Builders, that time has apparently come for many communities. "The cities are asking: How can we get people back here?" McNamara explains. That need gives cities the impetus "to ease the iron grip of regulation," as McNamara puts it, and to streamline unwieldy permitting processes.

Second, there is a growing population of empty-nest baby boomers who want to be closer to cultural activities and city jobs, and who aren't overly concerned about the inferior quality of schools often found in inner-city or low-income areas.

Finally, interest rates are down, and building activity is up.

"Right now the market is very hot everywhere, and profit margins are up" says Samuel J. Philt, director of marketing for Stature Construction, Inc., which is building a number of homes in downtown Houston. Philt cites several advantages to building in the city rather than in the suburbs. For one, the infrastructure is already in place. Sewers don't have to be built; streets are in. Also, many moderate- and low-income home buyers are getting financial help from government programs.

Yet Philt and others note a number of drawbacks. "It costs twenty to thirty percent more to build in the inner city," says Philt, due to increased regulations, higher permit and inspection fees, and the delays that come from having to negotiate with more bureaucracy. Anything involving the government inevitably takes a lot of paperwork. In addition, some empty lots and abandoned houses that look like prime spots for new homes often prove so burdened by title problems, liens, and back taxes that no one can afford to spend the time or money to untangle the mess.

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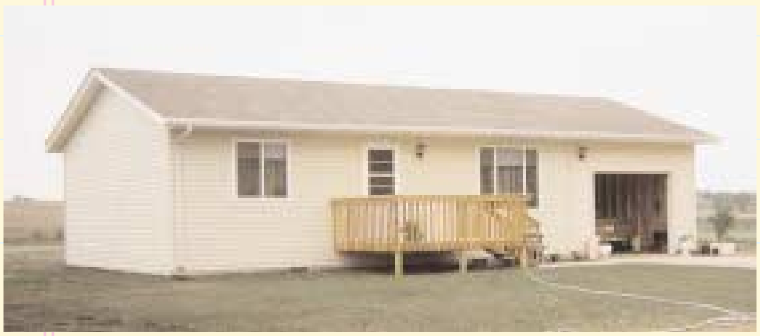
That's the Sound of the Men Working on the...*Mud Room*?

Some clients call their builders "crooks," but Walter and Carol Baker described the carpenters who built their new home as "convicts." The job boss simply refers to them as "inmates."

Robert Dooley, warden of Springfield State Prison in South Dakota, began turning criminals into contractors at his facility about two years ago, through an outreach effort called the Governor's Affordable Senior Housing Program. "It's a great program for the citizens of South Dakota," said Dooley, "and at the same time, it puts inmates to work."



Qualified South Dakota retirees are eligible to purchase prefab homes built by inmate apprentices at the Springfield State Prison. Authorities hope that the construction skills inmates learn will help them land jobs when they're done doing time.

Created by South Dakota Governor Bill Janklow, the program is designed to serve aging area residents who need an easily maintained alternative to moving into a retirement home. The inmates build a 768-square-foot, single-story home that's wheelchair-accessible, sided with vinyl, and insulated to R-19. Interiors are drywall trimmed in oak, and buyers can select from electric baseboard or forced-air heat.

Inmates, who volunteer to participate, don't just stroll into the program. In an effort to simulate the market conditions they'll face on being released, Dooley requires inmates to apply for Springfield construction jobs and pass an interview. As on most job sites, construction work in the program is broken down by trade; each worker studies roofing, framing, drywall work, or another specialized skill during their "apprenticeship."

Since the program pays only $2 per day, inmates are motivated by the opportunity to gain knowledge and experience. "Hopefully, when they get out of prison," said Dooley, "they can go to an employer and say 'For the last two years, I've been building houses at Springfield, and this is what I've learned to do'." Although Dooley lacks supporting statistics for his opinion, he believes that inmates in the program have a good shot at finding work upon their release.

Buyers, who are required to meet age and income restrictions, never actually interact with any carpenters who are serving time. The platform-framed houses are built on raised, temporary foundations within a secured area at Springfield Prison. An unarmed corrections officer guards workers on the site, who are under the direction of two state-employed construction supervisors.

Completed homes are trucked to the purchaser's lot, and site work is limited to attaching the home to its foundation and connecting utilities. The price of the home, including moving, is $19,400. Because the low-ball price would otherwise squeeze local contractors out of the housing market, the homes are shipped only to rural locales with small populations and low building activity rates.

Building Boomlet

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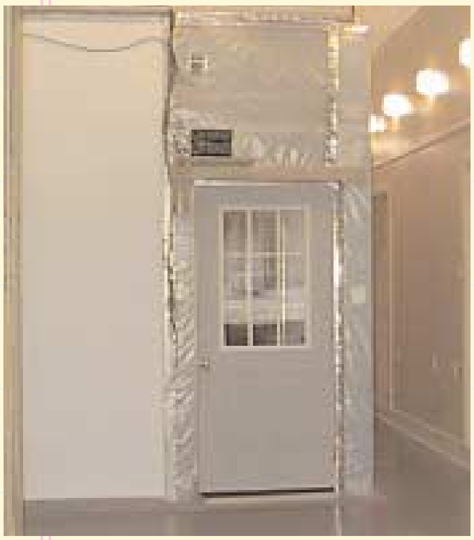
"The biggest obstacle for inner-city builders is being able to access buildable lots," says Jeff Smith, director of finance and marketing for Houston Housing Finance Corp., a city-sponsored nonprofit agency. But within a few months, Smith hopes, a new "land bank" program will help streamline the tax foreclosure process so that inner-city lots are liberated from their encumbrances, turned into insurable, mortgageable properties, and marketed to builders interested in developing them. Similar streamlining programs have helped spur increased building in Cleveland and other cities.

Such programs notwithstanding, however, building in older interior city areas will remain a challenge that's not for everyone, and one that calls for extra time and staffing to deal with increased logistics, costs, and delays. "Some builders," says Smith, "just don't have the patience for it." For those that do, the inner-city housing surge seems to be one with some running time still to come.

Taking the Pulse of Sick Buildings

As authorities in Polk County, Florida, recently discovered, a "sick" building not only creates allergies, respiratory disorders, and just plain yuckiness in its occupants; it can sicken a wall pretty badly, too. When the mold and mildew that flourished behind the vinyl wallpaper in the new county courthouse made many occupants ill, the building had to be closed and retrofitted at a whopping cost of $16 million — half the cost of the original building. Some experts say that such problems cost the hotel industry alone $68 million a year to replace damaged walls and coverings.



Researchers at Kansas State University recently researched the moisture problems that can cause sick building syndrome by building a room within a room. In the space between, seen here, they used electric heaters and humidifiers to create the heat and humidity of a summer day in south Texas — then measured the movement of moisture through the walls.

Preventing such physical and financial ailments is the goal of a two-year study on sick building syndrome being done at the Institute for Environmental Research at Kansas State University, and sponsored by the American Society of Heating, Refrigerating, and Air Conditioning Engineers.

In one stage of the study, investigators used steam humidifiers and electric heaters to create the heat and humidity of a summer day in Texas. The researchers built a room within a room to create this simulation, with humid "outside air" in the outer room surrounding the walls of an air-conditioned inner room. Using 300 sensors to track the movement of moisture through the walls, they found that when the air reached the interior room's waterproof wallpaper, the moisture stopped there and collected, eventually aiding the growth of mold and mildew. Preliminary results indicate rooms with permeable wallpaper allow this moisture to dissipate. The study also suggested that exterior walls treated with paint or sealant may slow the progress of moisture migration into the walls in the first place.

Next on the agenda are studies that will recreate the heat and humidity in different areas of the South and Midwest and evaluate various construction practices as they relate to the health and sickness of a building.

For more information, contact the Institute for Environmental Research at Kansas State University (785/532-5620; *www.engg.ksu.edu/ier*).

Tax Talk ...

Revised Mileage Rates

by Len Pytlak, C.P.A.

Good news for contractors and everyone else who puts in a lot of miles on the job: The Internal Revenue Service has announced that the 1998 mileage rate for deducting business use of personal vehicles has been raised from 31¢ a mile to 32$^1/_2$¢ per mile. (This is for miles driven in 1998, not for 1997 returns filed this year.) If you're a business owner, you can write off those miles as business expenses; if you're an employer paying that rate to your employees, it will not be treated as income to that employee.

However, an employer is not restricted to the 32$^1/_2$¢ per mile rate. It can compensate the employee at any rate that it wants. However, if the employer pays in excess of 32$^1/_2$¢ rate (or 31¢ for 1997 returns), the excess must be listed as a reimbursement on the employee's W-2 form. If the employer pays less than 32$^1/_2$¢, the employee might be able to take a deduction for the unreimbursed portion by entering the difference as a deduction in the appropriate section of Schedule A. (Schedule A allows for deduction of eligible expenses, such as tax preparation or certain investments, to the extent that the cumulative total exceeds 2% of the employee's adjusted gross income.)

In any of these reimbursement scenarios, the employee must report the mileage expense on form 2106.

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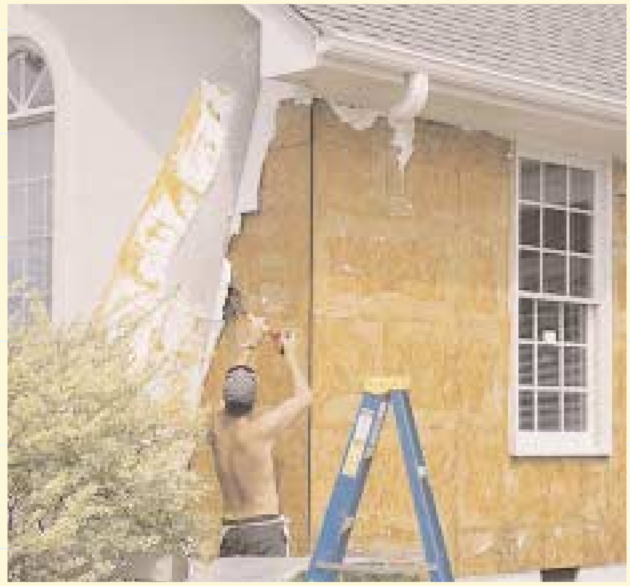
Jury Finds EIFS Maker Not Liable

According to some homeowners (and their lawyers), EIFS is the root of all evil — or at least of significant moisture problems in many homes to which the synthetic stucco siding material has been applied. Both homeowners and contractors have alleged that the material too easily traps moisture inside wood-frame walls, leading to condensation, rot, and other problems. Over the last few years, such problems have made EIFS (or Exterior Insulation and Finishing System) the subject of hundreds of complaints, considerable controversy, and several lawsuits.

Now, in what a manufacturer's attorney says was the first such lawsuit to reach a jury, a jury in Tacoma, Wash., cleared EIFS manufacturer Sto Corporation of responsibility for damage caused by water intrusion into an EIFS-sided home. Specifically, the jury found that Sto did not fail to supply a product that was reasonable and safe as designed, that it did not fail to provide adequate warnings or instructions, and that it did not violate the Washington Consumer Protection Act. Some jury members said afterwards that the homeowner "deserved" compensation for the damage, but not from the EIFS manufacturer.



Though the possible relation between EIFS and moisture problems has been the subject of considerable complaint and controversy, a jury recently cleared an EIFS manufacturer of any responsibility in a lawsuit a homeowner brought regarding such problems.

"This ruling certainly lends credence to what we've been saying all along," said Macon Lowe, president of Sto Corp. "EIFS is not the culprit in the damage suffered by these homeowners."

Offcuts ...

The bad news is that only car dealers and auto repair shops generate more consumer complaints than home improvement contractors, according to the Council of Better Business Bureaus. The good news is that the great majority of remodeling clients are satisfied once the job is done, according to a *Consumer Reports* survey of more than 18,000 of its readers, as reported at the magazine's Web site. Three of every four in the survey said they were "completely" or "very" satisfied overall with a recent remodeling project, with only 9% dissatisfied.

An Upper East Side apartment sold for a cool $2,400 a square foot last year, the first time a Manhattan residence cracked the two-grand-a-foot mark, according to a story in the *New York Times*. The 14-room, 5,400-square-foot co-op apartment on East 67th sold for $13 million. The previous high was set in 1995, when Jackie O's Fifth Avenue place went for $1,900 a foot.

Voters in Cape Cod, Mass., rejected a "land-bank" proposal this winter that would have levied a one-percent tax on all real estate transactions (with the first $100,000 exempted) in the Cape's 15 towns to fund the purchase and preservation of undeveloped land. The Cape, immensely popular with vacationers and second-home owners, has served for two decades as a sort of experimental proving ground for various types of land-use control. The failed land-bank proposal is one of the few major growth control and land-conservation measures that have failed there in recent years.