

New Coastal Codes Spur an Evolution in Business

*Interview by Jim Gialamas
for Coastal Contractor*

Eric Borden of ESB Contracting has been building high-end second homes on the Jersey Shore since 1986. Accepting two to three clients annually, the range of his work varies from major renovations priced between \$300,000 and \$1 million to new homes priced between \$1 million and \$1.8 million. New homes average 5,000 square feet and require a construction period of approximately 11 months.

With a staff of two in the office, one field supervisor, and another eight workers on site, the scope of ESB Contracting includes framing, exterior trim work, wood siding, and interior trim and cabinetry. Subcontractors perform all other work.

Like many coastal contractors serving vacation markets, Borden works on a reverse construction cycle — work begins the week after Labor Day with completion targeted for the following June 1. His clients are based in the New York metro area and beyond. Because their contact with the construction process is often limited to monthly site visits or discussions via phone or email, Borden refers to these homeowners as “absentee clients,” and because they typically aim for a June 1st completion, he refers to the days approaching the deadline as “the summer crush.”

With 18 years of coastal contracting under his belt, Borden has learned to guide anxious clients through a demanding construction schedule, all while home insurance pressures in recent years have completely transformed the way he does business.



Above, the power behind ESB Contracting: (front row, from left) Luis Vasquez, John Hoenings, Ed Gerretz; (top row, from left) Bob “Cosmo” Kidd, Perfecto Valles, Robert Rawl, Eric Borden.

WHAT'S THE DRIVING FORCE BEHIND RECENT CHANGES IN YOUR BUSINESS?

The big one is FEMA regulations, which have led to a stiffening of codes in our area (see “The ABCs of Flood Insurance,” next page). When you get beyond 50% of the value of the home, you must bring it up to current regulations. So, if the value of the house according to tax rolls is half the value of the structural loan, then current codes apply. So, for example, if we've got a house that's listed at \$120,000, and the cost of renovations is \$300,000, then we have to bring everything up to code. This could include changing all the windows to impact-resistant units, upgrading all electric, plumbing, and fire-protection systems, and ensuring the foundation meets current structural requirements. Often it's cheaper to knock the house down, especially with the houses we're working on, which were built anywhere from 50 to 100 years ago.

Survival of the Fittest

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DOESN'T STARTING FROM SCRATCH MAKE THE JOB EASIER?

Sometimes it does, but there are jobs where we cannot do a scrape-and-build because of the location of the house in reference to the dune line. Sometimes zoning laws require us to keep the house. We did one house, for example, where we had to rebuild the porches, but because of the location of the porches and how close they were to the dune line, we literally had to leave the roof up, tear everything else out from underneath, put in screw piles, rebuild the foundations, rebuild the decks and the floors, and get it all ready to stand the walls. Then we took the roof down, stood the walls, and put the new roof on it. At all times we had to maintain the building line without disrupting it; otherwise we'd have to move the house to comply with the current setback.

OVERALL, WHAT'S CHANGED THE MOST IN YOUR BUSINESS IN THE LAST 10 YEARS?

Demolition has become a much larger part of our number. It's lengthened our time frame. Now, all of a sudden, instead of doing a gut and then going in and renovating, it may take us a month just for the demolition because to get a permit we need disconnect letters for the water, sewer, gas, electric, etc. The actual take-down takes only a day or so. We can demolish a 3,000-square-foot house in six hours, and in another day load up all the garbage and get rid of it.

HAVE THE EXTENDED SCHEDULES BEEN DIFFICULT TO SELL TO CLIENTS?

It becomes much more important to talk schedule with the owner on the first meeting. We can selectively choose clients we want to work for. I'll do a phone interview with

the client to determine what the scope of the work is: Whether it's something we would be interested in, and whether it fits within our schedules. Then I'll consent to meet with the client. It usually takes me two to three hours and involves showing some of our projects, going over their schedule, and explaining off the top of my head how much time it could take to complete. I won't bid the project; they have to work with me on a negotiated contract.

WHY A NEGOTIATED CONTRACT?

Because the level of quality and detail is so involved. It could easily take me 100 hours to do a detailed and concise bid on the actual cost of that house. If I have to bid out five projects to get one, that's essentially one month of work. I'll be more than happy to work with clients once they sign on the dotted line, agreeing to hire me to put together a clear and detailed budget.

HOW LONG DOES IT TAKE TO CLOSE A SALE ON THIS TYPE OF PROJECT?

We work with clients anywhere from six months to a year in advance, depending on how far they've gone previous to contacting us. The current client I was just talking with was looking for a September start, and I consented to talk to him only because he'd done the leg work: He's got plans drawn up, and he'll have construction drawings done within the time frame we need.

IS IT DIFFICULT TO MARKET TO ABSENTEE HOMEOWNERS?

It's all based on referrals. Advertising would be a waste of time. Clients usually know other people in town or they've asked around. Many clients spend time or will spend time in the area. Real estate agents are always happy to give references. There's enough construction going on that they know who the architects and builders are in town.

HOW DO YOU HANDLE MATERIALS SELECTIONS AND PURCHASING?

That becomes a little more difficult with the absentee homeowner. The client that I'm dealing with right now did not want to deal with it at all and didn't mind spending \$400,000 for a New York City interior design firm instead. Some people just don't feel they have the ability to handle it. Other people have a concise idea of

THE ABCs OF FLOOD INSURANCE

In 1968, Congress created the National Flood Insurance Program (NFIP), which is administered by the Federal Emergency Management Administration (FEMA). FEMA helps flood victims to recover and promotes equitable distribution of costs to insured individuals. To participate, a community's floodplain management laws must meet NFIP requirements. However, FEMA has established incentives for communities to adopt even more stringent laws through the Community Rating System (CRS). Through the CRS, communities are awarded credit points for instituting flood-damage reduction measures, such as tougher building standards to reduce flood damage, improved flood mapping, and tighter zoning requirements. The number of points awarded determines a community's CRS class (1 to 10), which in turn determines the amount of reduction in the flood insurance premiums for structures within each Special Flood Hazard Area (SFHA).

what they want and feel they don't need an interior designer. Then it's up to me to bring it all together. Then I'll require the owner to do a design book with various ideas by room. We go through it during our construction meetings, which usually run once a month. The majority of our clients use top-of-the-line fixtures, like Kohler, because of cost and quality, but they don't necessarily go to the designer ends, like Waterworks. Of course, some do, but for a shore house, they usually want good quality for a reasonable price.

IS IT EASIER TO MANAGE AN ABSENT CLIENT?

The trust factor has to be huge. They're handing you over this house and saying, "Build it for us." They have to trust you enough to send you large amounts of money on the faith that you're actually going out and doing the work. So much is based upon your previous track record, how you've treated your past clients, and the references that you receive.

HOW DO YOU COMMUNICATE THAT TRUST OVER THE COURSE OF A JOB?

We use progress billing. That is, we bill the percentage of what we have completed on the job. For us, we're not waiting until we've completed a whole phase before we get paid. It also gives the client something to gauge the project on. The schedule actually gives them a real way to check the progress. The billing should match our schedule. So if we're billing on the 15th of the second month, when we should have completed framing, but if we're only billing 75% of the framing, then that's telling the client we're behind. It helps us manage the client and their expectations as we go through the job. That way they're not so focused on the end date. For most people, if they haven't gone through the construction process before, they have no idea how long something should take.

WHAT'S THE BILLING CYCLE?

We usually have clients on a rotating monthly billing schedule. If we're working three jobs, then I really like opening my mailbox. A lot of time when we're running multiple jobs, we'll run a rotating billing schedule on the



ERIC BORDEN

On the Jersey shore, this is your average \$1.5 million summer home on a \$4.5 million lot facing the ocean.

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— Eric Borden, ESB Contracting

jobs so we're basically invoicing one client a week and we should be receiving a check a week. It's not like at the end of the month when you have three invoices that have to be out and you're waiting for all your payments to come in on the tenth.

WHAT HAPPENS TO BILLING IF YOU HAVE WEATHER DELAYS?

We put "float" in the schedule to account for rainy days. In the contracting business, you can never have enough float. Unfortunately, the clients don't always want you to have as much as you need. You have to try to find a balance, but it doesn't always work. Between trying to schedule 30 different subcontractors and materials deliveries from 5 or 10 or 20 different suppliers, you always seem to have some hold-up, something's late, something's forgotten. The progress billing that we use is basically an AIA bill without retainage. It's not an AIA form, but it's basically the total amount, and what the current invoice percentage is, and what was previously billed out, then what the amounts are. This way the client has a running total of how much he's paid percentage-wise on each phase of the job.

WHO HANDLES THAT ACCOUNTING?

We work it right off of QuickBooks, the Contractor Edition. I pretty much do all the billing myself. It's not my favorite part of the job, but I don't know anyone who really likes paperwork. If you don't invoice the client, you don't get paid. And if you don't get paid, you don't have any money to do the work. It's all part of the same business. ~