

In the News

Builders Weather Economic Downturn

As the boom goes bust, savvy business owners focus on profitable niches and diversification

T rue believers in the irrational exuberance that's been fueling the housing industry got a painful smack upside the head this fall. According to the latest figures from the U.S. Department of Commerce, the rate of single-family housing starts for October fell 15.9 percent from September's rate, and a whopping 31.8 percent below that of October 2005.

Furthermore, in a development many view as symptomatic of the malaise plaguing the industry as a whole, luxury home builder Toll Brothers announced in December that its fourth-quarter profits were 44 per cent lower than those of the same period last year. Chairman Robert I. Toll blamed the dismal results on "our higher-than-normal 585 cancellations."

Although not as hard hit as new construction, remodeling activity is slowing down as well. Numbers from Harvard University's Joint Center for Housing Studies show that residential remodeling expenditures over the past four quarters rose an anemic 1.6 percent. Previously, double-digit increases were common.

Clearly, home builders and remodelers need to adapt to a changing business climate.

Branching out. For some companies, diversification has been the silver bullet. Gary Sackett is project manager for Abrahamse & Co. Builders in Charlottesville, Va., a 30-year-old firm that has long taken on institutional (schools and churches) and commercial jobs, as well as high-end custom homes. Sackett concedes that the "surge of new prospects" for residential work has lessened in recent months, but says that the commercial sector remains strong. In past years when work has slacked off, he says, "we beat the bushes — lobbying local architects and accepting small remodeling jobs that we'd ordinarily turn down — to generate new contracts." This time around, he says, will be no different.

Mark Parlee, a veteran builder in Urbandale, Iowa, says he started preparing for the slowdown years ago. "I was thinking that this building boom couldn't go on much longer, so I got more into renovation and repairs," he says. A former framing and siding contractor — and an early convert to Hardiplank — Parlee made himself an authority

■ In December, Connecticut insurance commissioner Susan Cogswell reversed an earlier ruling that would have allowed insurance companies to require shoreline homeowners to install storm shutters or face cancellation of their policies. Under the new regulations, owners of property located within one-half mile of the coast are permitted to use plywood, impact-resistant glass, or other approved measures to prevent storm damage. Insurers will also be allowed to apply a hurricane deductible. Two days after the ruling, Allstate announced it would no longer write homeowner insurance policies for new customers in Connecticut. The company denied that the storm-shutter ruling was responsible for the shift.

■ Either Bill Gates and billionaire investor Carl Icahn haven't been paying much attention to the home-building market, or they're smarter than the rest of us. Recently, both men have been loading up on stock in large home-building firms, even as the business outlook continues to worsen. According to *Reuters*, Icahn owns a large share in WCI Communities, which builds luxury homes in Florida, while the Bill & Melinda Gates Foundation has almost 2 million shares of Pulte Homes, as well as large holdings in Centex, KB Home, Ryland, Beazer Homes, Lennar, and WCI.

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Recession can be a “positive thing,” suggests one builder, “because it gets you to question how you’re doing business.”

on the correct installation of cement-board siding, boning up on crucial details that many siding installers in his area ignored. Although he continues to build houses (mainly with subcontractors), he and his four-man crew are extremely busy these days correcting poorly built exterior details, replacing siding, and otherwise fixing other people's mistakes. “I’m going into winter with four houses to redo,” he says, “and another client who’s ready to commit.”

Rob Corbo, a remodeler in Elizabeth, N.J., also became convinced a couple of years ago that his phone would eventually stop ringing off the hook. Even during the good times, work would occasionally stall because projects didn’t start on time or subcontractors fell behind schedule; to fill in the downtime, he started doing modest kitchen installations for a big-box home center. “It only amounts to about 10 percent to 15 percent of our business,” he says, “but that’s what’s been keeping us busy for the last month and a half, and probably will for the next month, too.”

Corbo’s referral network has benefited from this

arrangement because the home center he deals with allows him to contract directly with the homeowners if they’re interested in having more work done. “They [the home center] want to sell kitchen cabinets and installations, but they’re not interested in major gut jobs or additions,” he says.

Beware the pitfalls. Diversification, done deliberately and carefully, can be a sound strategy. But struggling home builders should be wary about diving headfirst into the remodeling field. “When new houses get cut back, we see a lot of guys in a truck coming around thinking they can do remodeling,” says Danny Feig-Sandoval, owner of Small Carpenters At Large (SCAL), a 28-year-old remodeling firm in Atlanta. “They don’t know how to price jobs and they’re not aware of the customer service that’s required for remodeling work.” Not long ago, in fact, SCAL was hired to complete a job that another contractor had severely lowballed and then abandoned when he ran out of money.

Despite increased competition, SCAL and other high-end remodelers are better insulated than most builders from the ups and downs of the housing market. “Our clients are more focused on quality of life than on resale value,” says Michael Anschel of Otogawa-Anschel Design-Build in Minneapolis. “It’s not about curb appeal or keeping up with the Joneses. These people are deeply committed to their homes and to making

RECALL

DeWalt is recalling about 137,000 circular saws because the blade guards can fail to close completely. The recall affects DeWalt DW378G and DW378GT framing saws with date codes 200301-49 through 200637-49; these tools were sold from January 2003 through August 2006. Also affected are DC300 cordless circular saws, with date codes 200601-49 through 200637-49, sold from May through September of 2006. For more information or to arrange for a free repair, contact DeWalt (866/854-5214, www.dewalt.com).



their homes work better for them, and they need to know that their contractor feels the same way.

"At the same time," he adds, "we have to convey, to even the wealthiest clients, that we are conscious of the budgetary constraints."

With more builders chasing fewer dollars, nobody is just an order-taker anymore. "In today's atmosphere, there's not tons and tons of work waiting at your door, so you have to be more proactive, and you have to follow up with people," Anschel says.

Market smarts. Jim Ronda, a remodeler in Medford, Ore., agrees. "We're having to do more work up front to get the job," he says. Although he's relied on word-of-mouth referrals during most of his 25 years in business, Ronda is now trying to drum up business by placing more ads in local fundraising publications and by experimenting for the first time with radio spots.

Similarly, Feig-Sandoval of SCAL — despite being, by his own account, computer-illiterate — has poured his modest advertising budget into a new professionally designed Web site, which he says is rapidly becoming his company's most effective marketing tool.

Like most of the other builders mentioned here, Kevin Barr, a veteran home builder and remodeler from

Twain Harte, Calif., has been through hard times before, and suggests that builders who expected smooth sailing forever were either naive or inexperienced. "There are a lot of builders who've been in business for less than 10 years and have never seen a slow cycle," he says. What's happening now "is part of the market," he notes, "and they need to be ready for it."

F.H. Perry Builder, a custom building and remodeling firm based in Hopkinton, Mass., has plotted a steady course of growth for 30 years through numerous fluctuations in the volatile Boston area real estate market. "We're a ridiculously cautious company," says Allison Iantosca, vice president of sales and marketing. "Every time we move forward, it's always a slow, strategic step."

That conservative approach has paid off as the company heads into 2007 with a generous backlog of upcoming projects; but the firm has never been afraid of slowdowns, either. Says founder Finley Perry, "A recession — for lack of a better word — is a positive thing because it gets you to question who your staff is, how you're positioned in the market, how you're doing business, and how you're going to beat it next time." — *Tom O'Brien*

■ Calling FEMA's application process "Kafkaesque," a federal judge has ordered the agency to resume housing payments to tens of thousands of displaced victims of Hurricanes Katrina and Rita. The case was brought on behalf of at least 11,000 families who, as early as February of last year, found themselves suddenly ineligible for the rental assistance program known as Section 403. According to the *Washington Post*, FEMA phased out this program, which made payments directly to landlords, in favor of a larger program, Section 408, which gives the money to the victims. Those affected were required to reapply for the 408 program, but the information they were given was so cryptic and contradictory, many did not know they were eligible for further assistance.

■ The U.S. Supreme Court heard arguments in November that timber giant Weyerhaeuser violated federal antitrust laws by overpaying for alder saw logs and buying more logs than it needed, thereby driving up the prices competitors had to pay for their lumber. The suit was brought by a small timber mill, Ross-Simmons Hardwood Lumber Co. of Longview, Wash., which claimed it was driven out of business by predatory tactics. In 2003, the U.S. District Court in Portland ruled against Weyerhaeuser, ordering the company to pay \$79 million in damages; in 2005, that ruling was affirmed by the 9th U.S. Circuit Court of Appeals. The Supreme Court's decision is expected in June.