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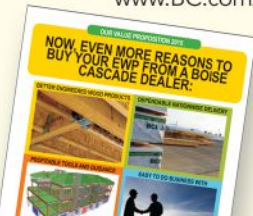
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*Nick Lehnert of KTG Group details design tips for attracting baby boomer buyers. go.hw.net/BD0215-Boomers*



*Exclusive coverage from the 2015 International Builders' Show. go.hw.net/IBS2015*

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# EXECUTIVE VIEWPOINT

MITCH SLATER, DANVER STAINLESS  
OUTDOOR KITCHENS

## Backyard Gold Mine:

# Behind the Scenes of the Surging Outdoor Entertainment Center Sales Phenomenon



### Mitch Slater

Mitch Slater is president of Danver, a sheet metal fabricator since 1966 and innovator of stainless steel products for the kitchen and bath industry since 1999. The 52,000 square foot, Wallingford, Conn. factory, specializes in designing and manufacturing stainless outdoor kitchen cabinetry, OEM stainless door and drawer fronts for wood cabinet manufacturers, OEM stainless components for appliance manufacturers, and other stainless accent pieces.

Residential architects, designers, custom home builders, and production builders with high-end models have found a powerful new ally in the home-selling wars: the outdoor entertainment center.

Far more than the grilling stations of old, the breakthrough concept captures the imagination of today's homeowner by allowing them to seamlessly extend their lifestyle "out back" with an all-weather kitchen, furniture, media, lighting, heating, insect control, and more.

Homeowners love the classy distinction and gracious new entertainment dimension. Designers and builders love the extra profit and competitive differentiation. It's a home run for all.

Helping lead the backyard revolution is a Wallingford, Conn.-based company, **Danver Stainless Outdoor Kitchens**. Mitch Slater, president and founder of Danver, says the best is yet to come for builders and A+D pros.

### ? Why the surging popularity of outdoor entertainment centers?

The last two years have been huge for our industry. Some estimate an annual growth of 15 to 17 percent. Architects, designers, and builders have jumped on the outdoor entertainment center bandwagon because customers want them. They see what others are doing on websites like Houzz and then visualizing how it could transform their competitive edge. Builders,

especially, understand how the concept opens up new marketing vistas and lucrative profit opportunities.

Outdoor entertainment centers are cool. They're amazingly functional. They're a proven game-changer in an ultra-competitive marketplace.

### ? How does Danver support home builders and the A+D community?

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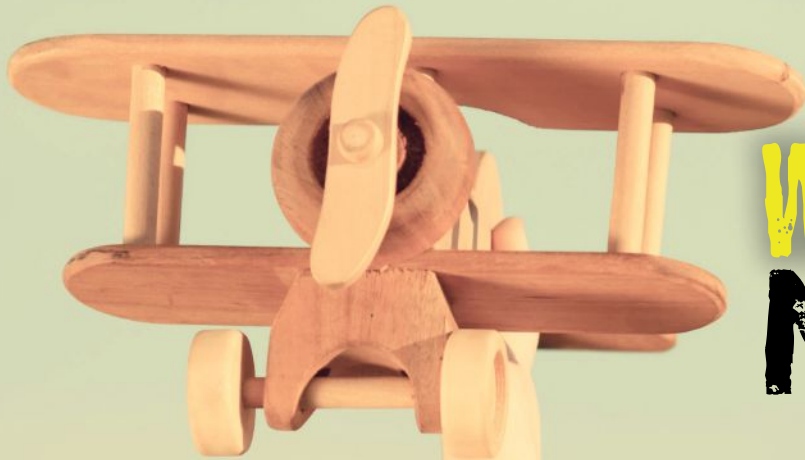
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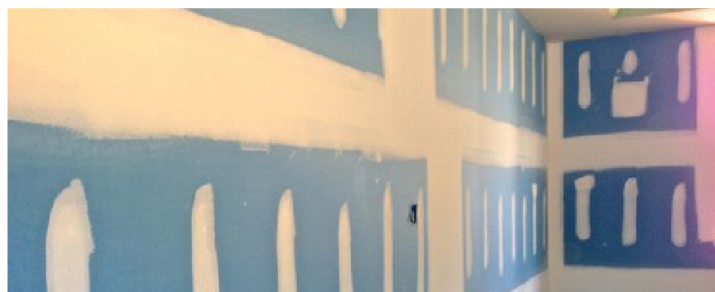
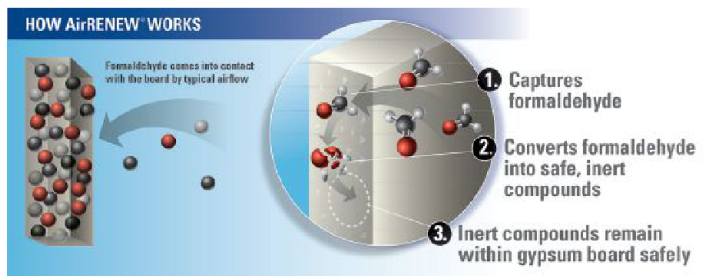
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# MAKE DEMAND

As the industry recovers, builders must accept that uncertainty is a given and that demand is not born, it is made

*They call economics a “dismal science,”* for good reasons. Economist David Berson, however, makes one thing clear beyond question. The senior vice president and chief economist at Nationwide Insurance, a long-time denizen of International Builders’ Show proceedings, proves with stunning skill that you don’t need PowerPoint slides to let an audience know how hard it is to get a mortgage loan these days.

He spaces about 2 inches between his thumb and index finger, and says that’s how tiny the “credit box” got in the regulatory recoil to the housing meltdown because the credit box had gotten too big—which he mimes with arms spread wide at shoulder height.

Now, though, after some policy wrangling and hang-wrangling, the credit box is a bit more expansive than it was at its worst. Berson takes part in an annual outlook panel at the IBS with NAHB chief economist David Crowe, and Fannie Mae chief economist Frank Nothaft. Last year, the trio called for a healthy single-family starts pick-up of 20 percent over 2013, and an almost inevitable increase in interest rates. Oops!

As such, the three economists are taking a mulligan on 2014. They predict that an economy that’s on pace to improve as much as 3 percent over the next 12 months will buoy job creation and wage growth, which should support growth in household formations, home sales, new-home sales, and construction. This is encouraging.

The picture is quite more complicated than that, of course. What’s entirely plausible is that the three of them could be sitting in those same three seats next year, explaining “what went wrong” with 2015 as it happened in 2014.

So, we must assume two things, and it doesn’t take charts and tables on PowerPoint slides to make them clear. One is that uncer-

YOUNG ADULTS ARE  
THINKING OF  
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OPERATION COSTS,  
AND EXIT PLAN  
VALUATION, WITH  
APPRECIATION.

tainty is a given, a trait of our time. The other is that demand for your new homes—such that it is—is not born, it is made.

When Berson speaks of the credit box, the size that seems just about right is not what it is now or what it was in 2012 or 2004, but what it was during the mid-1990s. He illustrates this with two hands, palms facing, about 18 inches apart in front of him.

For credit to ease to that point, if it ever does, is going to take effort, across-the-aisle policymaking, and time. More time than the next 12 months, anyway.

Demand, my friends, is up to you. If there’s something a fair number of us have taken away from the bright spots, high-end progress to date it’s that activating some of the upper tiers of buyer segments alone won’t necessarily get the whole works building into a recovery.

Now, one of the granddaddy of all consumer trends whose impact is still important in our economy and culture is the two-income household, which became a phenomenon for the first time in the 1970s and changed the nature of society as married women joined the “labor force” outside the home.

What came along with that phenomenon, and the development of 401(k) savings and investment plans, is that households suddenly began to act more and more like businesses. We’re a third generation of young adults into that mentality, and the good news is, if you appeal to this new cohort in a way that you’d appeal to an entrepreneurial start-up firm, you’re probably going to do well.

All too often we think of the impediments that prevent young people from buying, and it’s 99 percent about the first-cost factors of down payment, interest rates, and monthly principle, interest, taxes, and insurance payments. But that’s only part of the equation. Young adults are thinking beyond that, regardless of whether they’re aware of it. They’re thinking of homeownership in three stages, like a business would: entry costs, operation costs, and exit plan valuation, with appreciation.

The mindset is much more like a business today. That goes to show how two-income families changed the way households worked, saved, invested, and created wealth unlike the ways they ever did before.

Demand is not born. I urge you to invent desire and make demand. **B**



**John McManus**

GROUP EDITORIAL  
DIRECTOR



# A WELL-FRAMED APPROACH TO PROFITABLE ENERGY EFFICIENCY



Changing codes, growth in the economy and housing starts – how's a builder to profit from it all? Well, a bottom-up switch to Norbord is a sound first move.

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# Uncompromising VALUE

By cutting waste and making smart decisions about energy, Jagoe Homes achieves competitive HERS ratings at affordable price points.

Jagoe Homes builds about 300 homes a year in southern Indiana and western and central Kentucky. The company used to offer an all-electric option, but now builds virtually all of its homes with natural gas appliances.

## When Jagoe Homes talks about its Energy Smart homes program, the builder could mention a number of achievements.

Jagoe could call attention to the Energy Star Leadership in Housing Award it has received for three consecutive years, or the extensive focus the builder puts on air sealing and other time-intensive techniques used for energy-efficient construction.



In addition to gas space heating and water heating, Jagoe offers gas cooktops, fireplaces, clothes dryers, and outdoor stoves as standard or options on all of its homes.

But mostly, says Scott Jagoe, co-owner of the Owensboro, Kentucky-based builder, Jagoe Homes talks about value to the homeowner. "It really comes down to, 'What's it going to cost me a month to heat and cool the house? What are my energy bills going to be?'"

The concept of value applies whether the builder is selling \$150,000 starter homes or more-customized \$600,000 move-up offerings. Across the

spectrum, Jagoe has achieved average HERS Index scores of 64 by cutting waste, using the savings to improve construction techniques, and making intelligent choices about energy source.

## Getting Lean

Jagoe began looking for ways to operate more efficiently in 2008, when the builder saw potentially costly changes to the energy code on the horizon. "We undertook some lean initiatives and looked at all the areas we could take waste out of the house," Jagoe says.

The builder took those savings and revamped or upgraded a number of its installation and construction techniques, working with trade partners to improve

air and duct sealing, for instance. Jagoe also looked at opportunities to upgrade to more energy-efficient appliances and equipment fueled by natural gas. "We can achieve a better HERS rating with gas appliances than we can through all-electric or a heat pump," Jagoe says.

Gas tankless water heaters, for example, are now standard in every Jagoe home. In addition to reducing energy use by heating water on demand, the tankless units have entirely eliminated callbacks from homeowners who run out of hot water. "That's a win-win for everybody," Jagoe says. "Years ago, those used to be options, but through lean savings, we were able to make those standard."

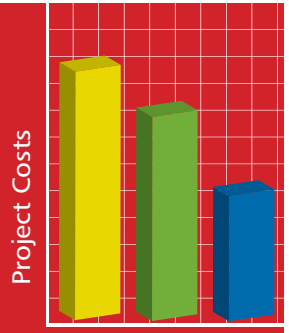
Similarly, customers prefer the warmer air delivery of gas furnaces, and the high-efficiency systems make it possible to cost-effectively achieve consistently low HERS ratings, Jagoe says. Going all-electric would require him to compensate with a higher-cost option like SIPs or LEDs to achieve the same score.

While Jagoe could have applied the savings he created to countertop or flooring choices, investing in efficiency allows the builder to set reasonable expectations for what homeowners will spend to operate their homes, differentiating Jagoe Homes from resale options. "If you're applying those dollars toward something that saves energy," Jagoe says, "homeowners are going to continue to get value out of it long term."

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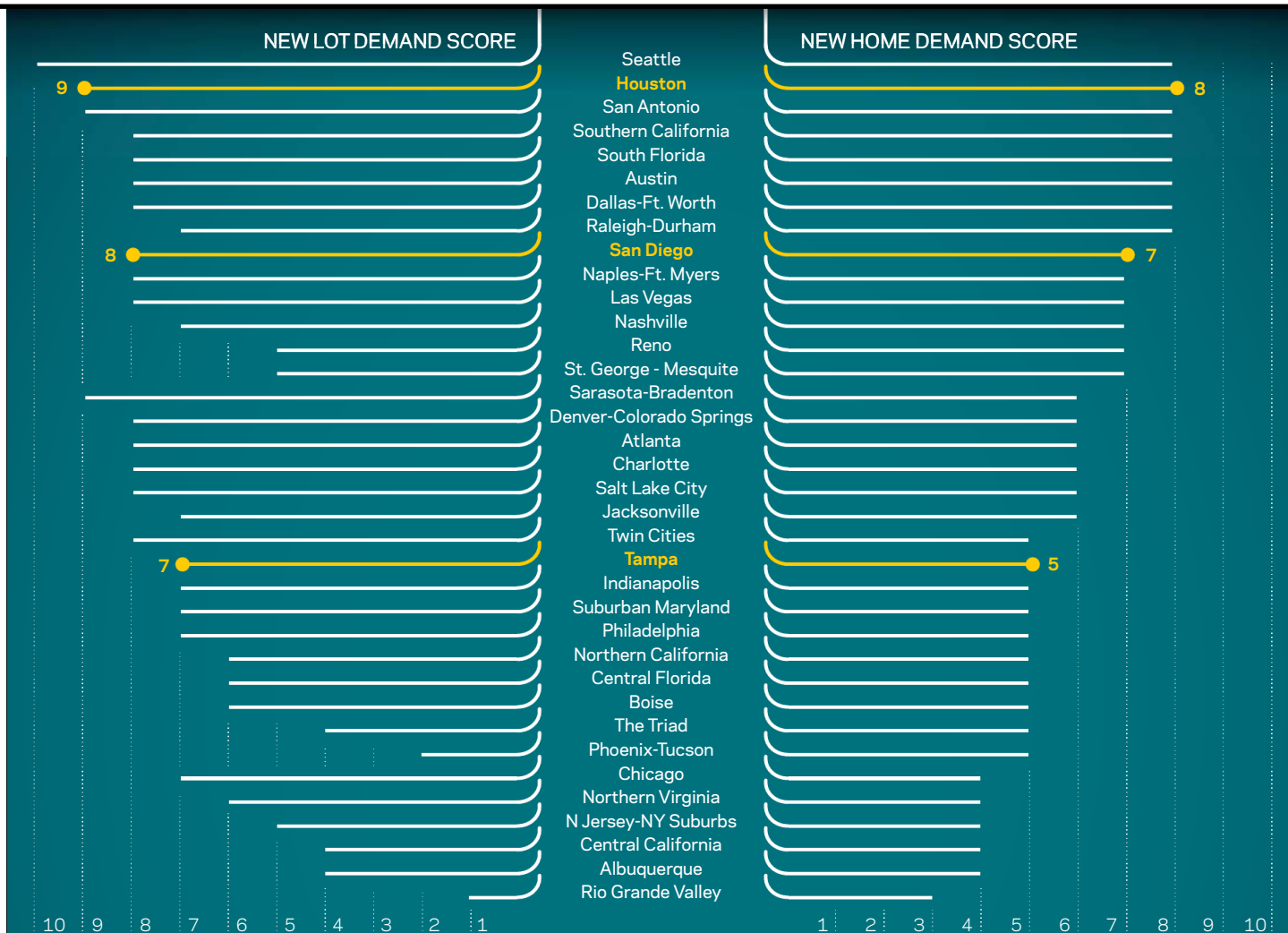
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# Start

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## DEMAND VS. DESIRE

Pricing growth incites low new-home demand, but it's more an indication of fear than a lack of desire among entry-level buyers

**A basic lesson in economics teaches** that levels of supply and demand give a clear indication of what prices consumers can expect before even looking at a price tag. When the desire to own a product is high, people are willing to pay a

higher price—but our Demand Index (and closings in many markets across the country) indicates that there's a limit.

The American dream of owning a home is still very much alive—results of Gallup's Econ-

## Start

### METROSCAPE

omy and Personal Finance Survey revealed that seven in 10 non-homeowning adults aged 18 to 29 hope to own a home in the next 10 years. More significantly, 35 percent to 40 percent of non-homeowning adults of any age group who make less than \$50,000 annually also hope to buy a home in the future.

The rising cost of land, however—even in markets where lot supply isn't as tight—directly affects prices builders charge for a new home. Yes, basic economics, but for the post-recession, non-homeowning American, the desire to own a home is no match to the deep-seated fear of losing everything—a possibility the recession proved to exist. Taking out a loan to buy something out of means seems more like Russian roulette than a mortgage now.

Across Metrostudy's 32 markets, the average score for new-home demand in December was 5.9, a marginal increase from November. In Phoenix, Central California, and Central Florida, traffic is still positive, but buyers are unwilling to commit, and pricing growth is

pushing them to resale. For this reason, new-home demand scores in these markets keep the average down, but they are in a better state than Rio Grande or Albuquerque, where low scores reflect weak employment markets and, despite flat prices, people aren't buying.

We asked Metrostudy's regional directors to share what kind of new-home product is most in demand in their markets, and move-up and elite/luxury homes were called out most. While some economists have hypothesized that 2015 will be the year entry-level buyers trickle into the market and form new households, our commentary indicates that affordability is a major issue, and it's questionable as to whether buyers will even attempt to clear it.

According to Tampa regional director Tony Polito, the city "needs to reignite the first-time buyer profile or develop additional product for active adult buyer segments." Job growth in the market has been poor since June, and demand is centered in the elite/move-up market. Despite solid employment in San Diego and

wage growth in Houston, the story is similar: Demand is in the move-up/elite market, and supply of affordable first-time product is limited. Houston regional director Scott Davis says a big run-up in pricing has pushed product lines up to the next pricing category, based on land cost and construction cost increases.

The share of Americans who self-identify as middle class has never been so low, according to the Pew Research Center, and the share who consider themselves lower or lower-middle class increased to 40 percent in 2014. It seems fair to say that the majority of markets are missing an opportunity by developing product that only the 15 percent of Americans who identify themselves as upper class can afford.

It's a Catch-22—builders know they can close if they build product for older generations and upper class Americans, but they exclude the bank of potential entry-level buyers; if builders produce entry-level product but out-price their buyer, then they risk operating at a loss. — CHARLOTTE O'MALLEY



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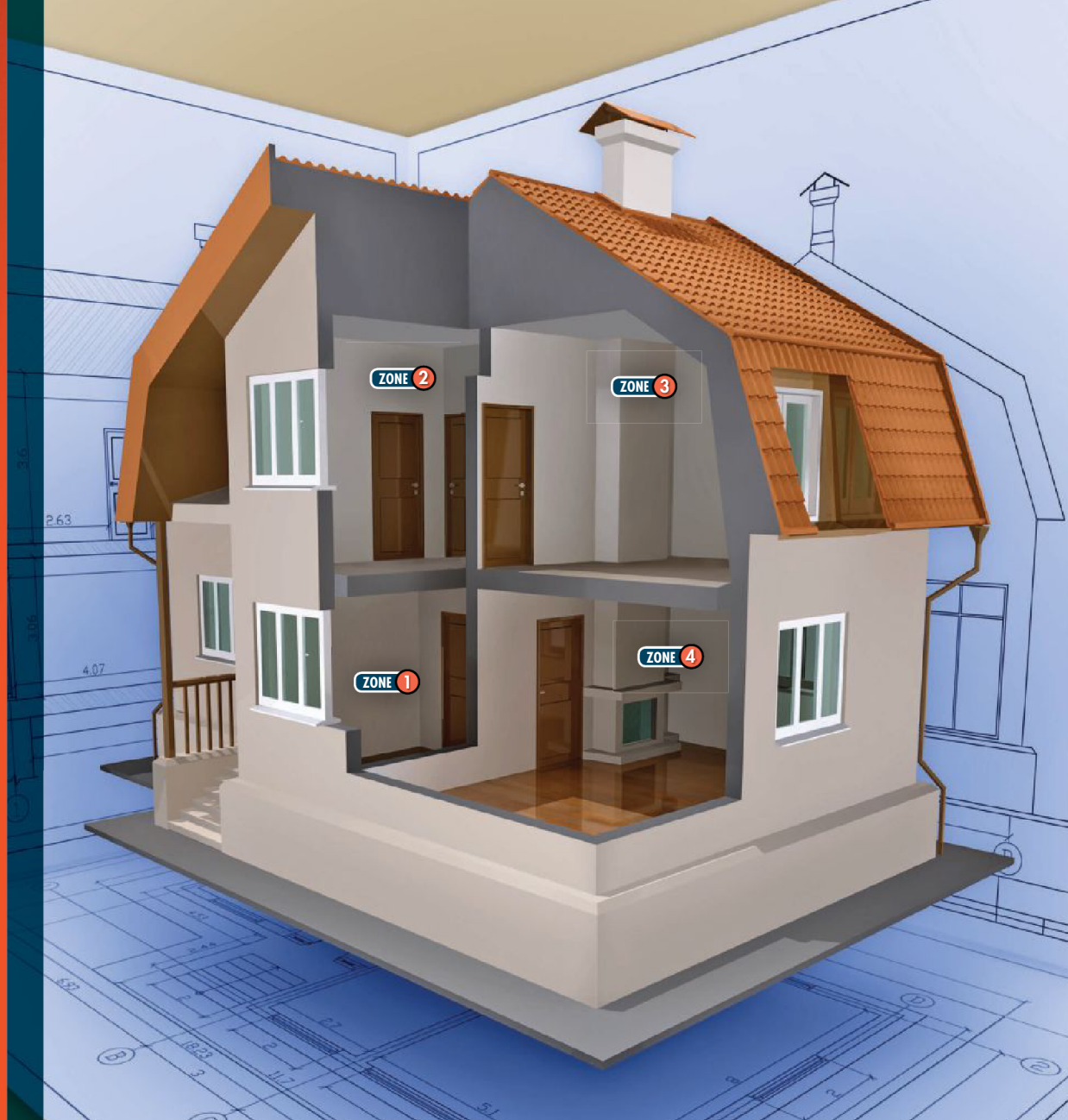


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### Housing Industry Applauds FHA Move

President Barack Obama's announcement that the Federal Housing Administration (FHA) was cutting premiums 50 basis points to 0.85 percent was met with applause through both the for-sale and affordable housing communities. The move could open the homeownership door for entry-level and buyers of modest means by reducing payments by up to \$900 a year, according to the White House.

To put this savings in everyday spending terms, Lawrence Yun, chief economist at the National Association of Realtors, argues that the savings in FHA premiums is similar to the savings consumers are getting through lower energy costs. Over a year, that can mean real savings for first-time buyers.

"FHA is principally catered to moderate income first buyers so this is great news for people in that segment," Yun says.

Brad Hunter, chief economist and director of consulting for Metrostudy, thinks the FHA move could help pave the way for a more complete housing recovery.

"At this stage, any help is welcome," he says. "Mortgage availability is still a very serious impediment to a full housing recovery, and FHA is in a position to be of great help. This move does represent further progress."

The NAHB had similarly positive feelings, noting the move should help make home loans more affordable, particularly for first-time buyers, and help alleviate tight credit conditions.

And while the FHA move will help first-time home buyers, it also will help the agency to compete more effectively with Fannie Mae and Freddie Mac, especially given their new 97 percent loan-to-value programs, according to a note from financial advisory firm Raymond James.

But not everyone agrees the FHA is in a financial position to lower premiums. In a statement released Jan. 7, House Financial Services Committee Chairman Jeb Hensarling (R-Texas) argued that the decision to lower premiums could put FHA at risk, which ultimately hurts the ability of low-income families and first-time buyers to get loans.

"It was just two years ago that taxpayers had to bail out the FHA to the tune of \$1.7 billion, and just two months ago an audit revealed that FHA is still in violation of federal law because it does not maintain sufficient

capital reserves," Hensarling said in the statement. "Lowering premiums now would only put the FHA further behind. A fiscally sound FHA, with a clearly defined mission, ensures homeownership opportunities for creditworthy first-time home buyers and low-income families. Any effort to lower FHA premiums would be counterproductive to achieving these goals and would place the U.S. taxpayer at greater risk."

Even the affordable housing community had positive reviews, though there was a caveat. "Enterprise commends this administration for shining a spotlight on the need for housing early in 2015 and for its efforts to lower the Federal Housing Administration's fees charged to credit-worthy low- and moderate-income home buyers," said Ali Solis, senior vice president of public policy and corporate affairs at Enterprise Community Partners, in a written statement. "This will assist families as affordable homeownership will help address our nation's growing housing insecurity crisis, but it is only part of the solution." Solis urged the administration to remember preservation of affordable rental housing with one in every four renter households spending at least half of their monthly income on rent. "Affordable rental housing needs to be preserved as a critical option for the unprecedented number of families in the U.S. living on the brink of homelessness," Solis said. — LES SHAVER

### Robust Housing Starts in 2015 Predicted

During this year's International Builders' Show (IBS) in Las Vegas, three economists shared their predictions for accelerating housing starts in 2015.

The panel of economists included David Crowe, the chief economist for the NAHB, David Berson, senior vice president and chief economist at Nationwide Insurance, and Frank Nothaft, chief economist and vice president at Freddie Mac.

During the hourlong discussion, all three experts agreed that housing start growth would gain momentum in the next year, but they didn't necessarily agree on how fast housing starts would grow, or which economic conditions would best contribute to that growth.

"Single-family housing starts will increase 26 percent to 800,000 a year," said Crowe. "That

### FROM THE BLOG

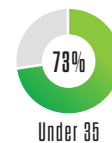
Myers Barnes, founder of Kitty Hawk, N.C.-based Myers Barnes Associates

Football Hall of Famer and philanthropist Gale Sayers once said that if you're early, you're on time. If you're on time, you're late. And if you're late, you're forgotten. In these days when every minute seems to be accounted for, you can't afford to compromise someone else's busy schedule. A few minutes could cost you the sale of a new home, because lateness is a sign of disrespect. The ultimate way of gaining respect is by delivering on time, whether that means showing up a few minutes ahead of schedule or providing the follow-up when you've promised it, not a few hours or even minutes later.

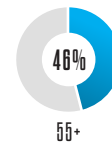
Too many people have become casual about promptness. I've seen this problem with salespeople in model homes. They show up 10 or 20 minutes late to open the sales center, or leave a half-hour before the posted closing hour. These times are promises to your prospects. When no one is there to greet the potential buyer, you've already broken a promise and compromised your respectability. As a manager or developer, this is crucial for you to understand because every person on your sales team reflects you and your brand. Even if you are vigilant about timeliness, one slip-up with a salesperson at your model reflects poorly on you.

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### STATS THIS MONTH IN HOME BUILDING

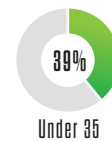


Under 35

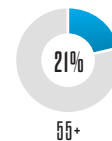


55+

Three out of four participants (73 percent) under age 35 report that outdoor space is important for entertaining, compared with 46 percent for those 55+



Under 35



55+

Millennials (39 percent) have an interest in edible landscaping; only 21 percent of those above age 55 desire this feature

Source: Better Homes and Gardens "You and Your Home" survey



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is still well below a normal level of about 1.3 million or 1.4 million starts," he added. "While it's a good year, it still leaves us a good distance away from where we need to be."

Nothhaft's growth forecast of 15 percent wasn't as optimistic. But he added, "if [that much growth] comes to pass, that will be the best year for home sales since 2007." Nothhaft also predicted a modest rise in home prices. "We're expecting house prices to continue to rise in 2015 at 3.5 percent to 4 percent rise in values in 2015," he said.

"If we see economic growth running at 3 percent at an annualized rate, the Federal Reserve should begin to push up short-term interest rates by the second half of 2015," added Nothhaft. "We see mortgage rates going up to 4.5 percent on the high side at the end of this year, going from dirt cheap to cheap. Overall, affordability for buyers in most markets will be well maintained in the context of strong job and income growth."

Berson said there were three main challenges holding the housing market back right now: Lending standards, lack of household formation, and student debt. "The question is, why haven't household formations picked up?" asked Berson. "It may be that the real acceleration in job growth has occurred too recently."

As we hear more and more these days, the solution may come down to the purchasing power of the millennial generation. And the older they get, the more likely they are to earn higher wages and be free from student debt. "The leading edge are now in their young 30s," said Berson. "Homeownership desire is much higher for those who are in their 30s than those in their 20s." As the economy gains steam in 2015, Berson predicts it will be a "significant factor" in encouraging millennial household formation. — SANDRA MALM

#### **Century Sees Value in Green Certification**

Century Communities recently announced its commitment to LEED certification for all new homes in its current and upcoming developments. The LEED-certified homes will save homeowners up to 40 percent on energy and water bills and qualify for the company's Efficiency Promise Program, which provides a two-year limited guarantee that energy used to heat and cool the home will not exceed a specified value.

Here, BUILDER talks with Justin Cox, vice president of operations at Century Communities, about the costs and benefits of the new program.

#### ***Q: Why have you decided to expand your LEED program in Austin and San Antonio?***

**A:** At Century Communities, we feel it is important to offer a comprehensive, verified, and certified energy efficiency program to as many home buyers in these markets as possible. Homes offering energy efficiencies benefit our buyers tremendously through ongoing cost savings as well as a higher resale value when the time comes to sell. The decision to expand our LEED-certified program in Austin and San Antonio was made in the hopes that we could benefit more of our buyers.

#### ***Q: How does your Efficiency Promise work?***

**A:** Our Efficiency Promise is a two-year heating and cooling guarantee, using the confirmed Home Energy Rating System (HERS) rating of an address-specific home. The HERS rating is based on the type of fuel used in the home, such as natural gas for the heating and electricity for the air conditioning. The rating also takes into account the cost per kW and BTU of the servicing utility for the subdivision.

#### ***Q: Are buyers in your marketplace asking for green-certified homes?***

**A:** Buyers are definitely becoming more aware and interested in the green features offered in our Austin and San Antonio homes. Increasing costs, environmental changes, and more readily available information about the importance of implementing energy efficiency measures make the desire for green-certified homes even more widespread.

#### ***Q: How much does the LEED program add to the cost of each house?***

**A:** The LEED certification program is rigorous and comprehensive. Each home is evaluated by industry experts at various stages of construction to ensure that all LEED certifications are being met. The nominal added cost to conduct this extensive testing throughout the construction process ensures that each of our buyers benefits from the additional energy efficiencies and higher resale values.

— JENNIFER GOODMAN

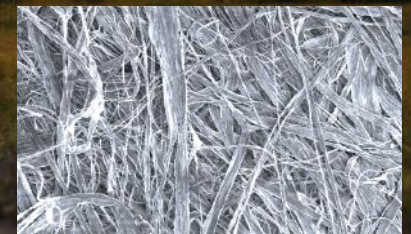


## Energy Savings and Added Value for Your Customers

Energy efficiency isn't a buzz phrase; it's a priority for your customers. Did you know that air infiltration is responsible for up to 40% of a home's energy loss?

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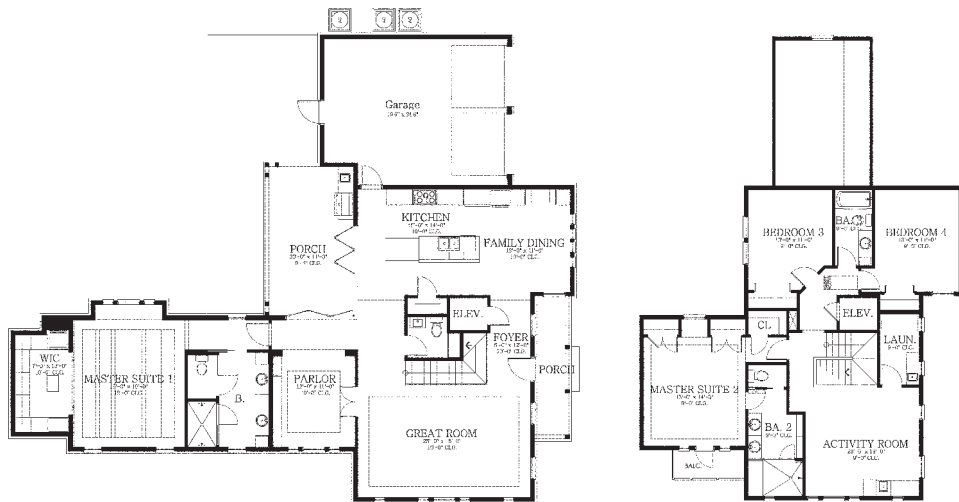


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First Floor

Second Floor

## PLANS FOR MODERN FAMILIES

Families are changing, and so should your layouts

**It's time to rethink** the old housing models—you know, starter, move-up, and empty nest. Why? Because the American family itself has changed. Fifty-seven million Americans live in a multigenerational household, and just 46 percent of children live in a traditionally defined family (two heterosexual parents, in their first marriage). Add to this the huge group of aging baby boomers and fewer young people marrying and having babies, and you've got a lot of different living situations that perhaps are not being served by your typical three-bedroom, two-bath home layout.

So how do you meet their needs? Offer super-flexible layouts that aren't easily found in the existing market. We've selected

our favorite new plans for a variety of hypothetical families. The layout here represents a fresh look at a multigenerational move-up home, with two deluxe master suites and an elevator that connects the levels. The beauty of this arrangement lies in its extraordinary versatility: the first-floor suite can be used for grandparents (yes, two—just look at that bathroom), a recent college grad, or even the primary homeowners if they prefer. The elevator opens up both levels to every member of the family. See our other picks at go.hw.net/BD0215-plans. — AURORA ZELEDON



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Bathrooms 3 1/2

Dimensions 62' 0" x 75' 0"

Foundation Slab

5-Set \$1,995

8-Set N/A

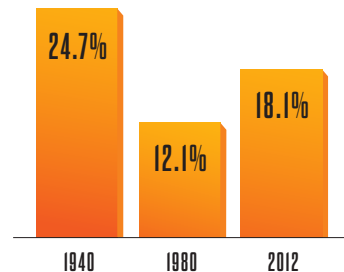
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PDF \$2,395

With a full master suite on each level, this versatile new plan takes the multi-gen concept way beyond an in-law suite in the backyard. A live-in grandparent can take the ground-level suite, where a huge walk-in closet and two sinks in the deluxe bathroom offer outstanding comfort. Upstairs, an equally appealing second master and two more family bedrooms enjoy easy laundry access and an activity room with a wet bar. An elevator adds ease for aging in place. Modern farmhouse styling makes the exterior stand out.

### ON THE RISE: Multi-Gen Households



U.S. population living in a multi-generational household  
Source: Pew Research Center analysis of U.S. Census Bureau data

Photo: Courtesy Keese and Associates, Inc.





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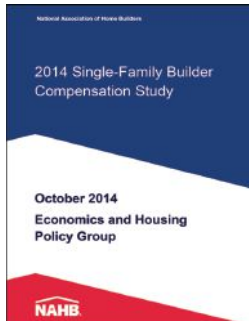
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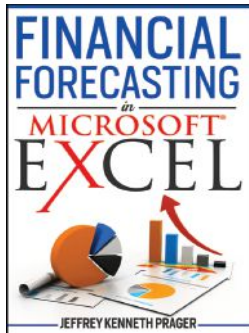
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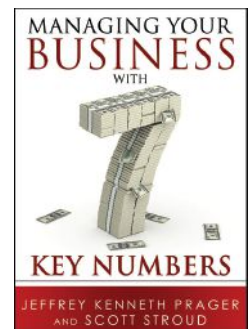
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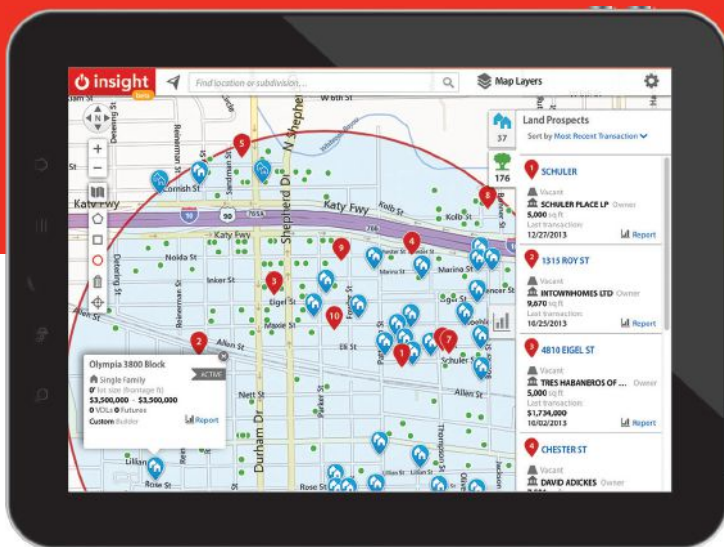
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# FLAWLESS FINISH

Five new flooring lines that look almost too great to walk on

Edited by Laura McNulty



1



2



3



4



5

## 1. MOHAWK

SmartStrand Forever Clean incorporates new Nanoloc technology, which creates a permanent spill-resistant shield engineered to make the carpet easier to clean. Nanoparticles lock together and move with the carpet fibers to prevent spills from settling into the carpet and to release dirt more easily, according to the company. Nanoloc technology is now included in every SmartStrand carpet line. [www.mohawkflooring.com](http://www.mohawkflooring.com)

## 2. DALTILE

The Cotto Contempo porcelain line delivers a fresh, bold look by

combining traditional cotto with elements of cracked cement. Suitable for multiple applications, including countertops and walls, the collection is designed for a seamless transition between indoor and outdoor spaces. Large-format field tiles are available in four sizes and in four earth-inspired hues, each of which offers multifaceted color variation for added depth. [www.daltile.com](http://www.daltile.com)

## 3. RAGNO USA

3D digital print technology gives Urban Posh glazed porcelain tiles the look of handcrafted fabric by capturing linen's natural variegations and imperfections and translating the design onto 12-inch-by-24-inch planks that can be used for vertical or horizontal installations. Available

in four neutral colorways enhanced with cross-directional weaves, the collection also includes 2-inch-by-2-inch mosaics mesh-mounted in 12-inch-by-12-inch modules. [www.ragnousa.com](http://www.ragnousa.com)

## 4. NEW RAVENNA

The Illusions collection's seven mosaic tile designs are handcrafted in natural stone, jewel glass, and shell, with optical patterns meant to create texture and depth. The designs are available in multiple colorways and feature organic tones inspired by nature. Each mosaic in the collection is a custom creation and sized for the individual installation. Tiles can be

used on horizontal and vertical, as well as interior and exterior, surfaces. [www.newravenna.com](http://www.newravenna.com)

## 5. QUICKSTEP

New finishes in the Eligna collection, including caramelized maple and tropical koa, offer the look of domestic and exotic hardwood in the durability and convenience of a laminate. Planks are designed to mirror the natural textures and pattern of genuine wood grain, with square edges to provide a seamless transition. Direct-pressure laminate technology uses four layers to create a sturdy, stable board that won't collapse in the center, the company says, and ScratchGuard advanced finish protection keeps floors resistant to micro-scratches. [www.us.quick-step.com](http://www.us.quick-step.com)



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<sup>1</sup>2013 Aflac WorkForces Report, a study conducted by Research Now on behalf of Aflac, January 7 – 24, 2013. <sup>2</sup>Eastbridge Consulting Group, U.S. Worksite/Voluntary Sales Report, Carrier Results for 2012, Avon, CT: April 2013. Coverage is underwritten by American Family Life Assurance Company of Columbus. In New York, coverage is underwritten by American Family Life Assurance Company of New York. Worldwide Headquarters | 1932 Wynnton Road | Columbus, GA 31999



1



2



3



4



6



5

## WELL CONNECTED

Smart home products at CES promise efficiency, convenience, and a touch of dazzle

Edited by Laura McNulty

### 1. CARRIER

Smart thermostat Cor allows homeowners to view a comprehensive analysis of their energy usage and in-depth performance reports, including interactive efficiency tips. Cor can be manually programmed or use smart setback, which analyzes the home to set the optimal temperature. [www.carrier.com](http://www.carrier.com)

### 2. SCHLAGE

Along with an illuminated touchscreen, Bluetooth lets Schlage Sense owners use their smartphone as a wireless front-door key. Designed to work with Apple HomeKit, the system provides advanced security and encryption, as well as the ability to control the lock using Siri and manage up to 30 codes at a time. [www.schlage.com](http://www.schlage.com)

### 3. HONEYWELL

Honeywell is expanding the Lyric family with a home security system featuring cameras; motion, smoke, and intruder detectors; and connected lighting, shade, and lock controls. The system can be operated by personalized voice commands or a touchscreen controller. [www.honeywell.com](http://www.honeywell.com)

### 4. LG

Two laundry loads can run at the same time with the new Twin Wash System, which incorporates a mini washer into the pedestal of front-loading washing machines. The new models also include features such as a TurboWash cycle, EasyLoad two-way doors, and SmartThinQ technology. [www.lg.com](http://www.lg.com)

### 5. SAMSUNG

Samsung's new slide-in induction range features Virtual Flame technology: LED lighting embedded beneath the cooktop surface to mimic a gas flame, growing in intensity as power is increased. The range also includes Flex Duo oven technology, which allows consumers to cook at two different temperatures simultaneously. [www.samsung.com](http://www.samsung.com)

### 6. SENGLED

Sengled's LED bulbs are more than just smart lighting. Pulse includes a high-quality JBL speaker and connects to satellite bulbs to deliver home audio, and Boost's WiFi signal repeater extends wireless coverage. Snap features a 720p camera, microphone, and speaker. [www.sengled.com](http://www.sengled.com)

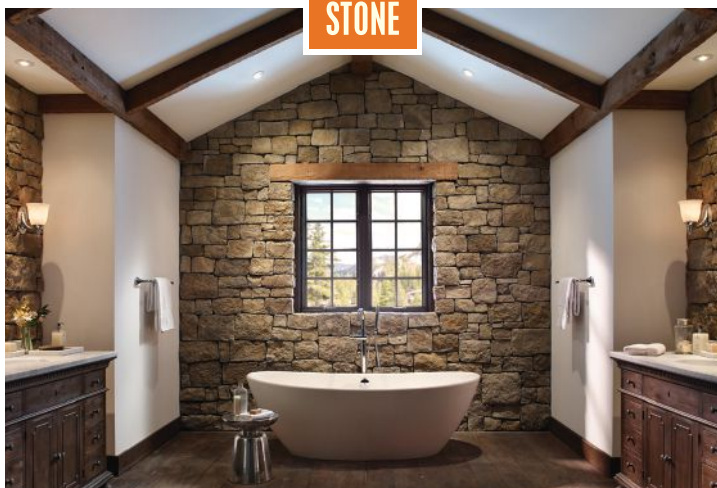


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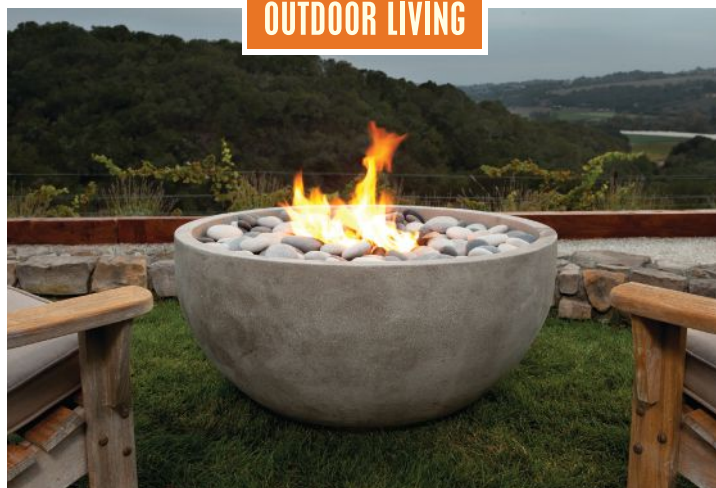
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# EXECUTIVE VIEWPOINT

MARTY MUSGRAVE, LUBRIZOL

## Why Risk It?

### How to Protect Homeowner Value By Choosing Better Materials



**Marty Musgrave**  
North American Demand Creation Sales Manager,  
The Lubrizol Corporation, A Berkshire Hathaway, Inc. Company

Marty Musgrave is the North American Demand Creation Sales Manager for the Lubrizol Corporation. For more than 35 years, Marty has worked for some of the largest plumbing products manufacturers in the country, serving in various sales and product development roles. Marty joined Lubrizol 17 years ago and during that time has developed extensive knowledge of piping systems products. This knowledge along with his many years of industry experience has helped homebuilders, engineers, contractors, and end-users specify quality piping systems that exceed their performance objectives.

There's no shortage of risk in home building.

So why would any home builder, custom or production, stake their reputation on anything less than top quality building materials from a respected North American manufacturer?

Yet, by deferring to the subcontractor to specify the materials being used, some builders have inadvertently put themselves in harm's way. What is the risk? How can it be avoided? What steps can you take to protect yourself from the kind of problems an online search quickly reveals in chilling abundance and detail? By choosing to use only materials that will protect their clients and their investment. Marty Musgrave shares his insights from 35 years in the plumbing business:

#### ? What kind of building materials are we talking about?

The issue is today's plastic-based piping systems, the ones plumbers recommend most. Many builders don't know there is a vast difference in plastics-based plumbing systems.

To illustrate the difference, think of galvanized steel and copper. Sure, both are metal. But both have very different characteristics. The same is true with plastic. Plumbers today mostly install one of two kinds. One piping material is called cross-linked polyethylene, PEX for short. The other is called CPVC. For a wide variety of reasons, informed builders and installers select FlowGuard Gold® CPVC pipe and fittings.

#### ? Why should a home builder care what plastic pipe their plumber installs?

Without getting too deep into the science, CPVC is a far better choice to handle hot and cold chlorinated water that flows from North American taps. Several studies show that PEX and its base polymer, polyethylene, are vulnerable to chlorine, which is used to keep potable drinking water systems safe from bacteria.

CPVC-based pipe handles hot and cold chlorinated water with no problem.

#### ? So CPVC-based pipe is what a builder should specify?

Absolutely, more specifically FlowGuard Gold piping systems. A FlowGuard Gold system offers proven long-term durability and many other advantages to a home builder. But that's just part of the story.

FlowGuard Gold piping systems are the most specified CPVC piping system worldwide. Lubrizol, the global leaders in CPVC polymer technology, has a 50+ year legacy of excellence as the innovators of this proven technology. Our network of pipe and fittings manufacturers must meet stringent quality-control criteria.

FlowGuard Gold piping systems provide reduced material costs, pricing stability, fast install times, no hazardous soldering, and no jobsite theft.

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I realize home builders have faced product challenges over the past few years from suppliers outside of North America. Lubrizol is based in Ohio, and is owned by Berkshire Hathaway, and our CPVC manufacturing plant is located in Louisville, Kentucky. Our FlowGuard Gold piping system has an excellent 50-year track record of performance, accounting for billions feet of pipe installed.

#### ? What should home builders do to learn more?

Visit our Learning Center at [flowguardgoldbuilder.com](http://flowguardgoldbuilder.com) or [flowguardgold.com](http://flowguardgold.com) to learn more. Or, contact one of our piping system consultants. They are at your service to meet with you, your specifiers, sales staff, or installers to provide assistance through every stage of construction. FlowGuard Gold products are readily available through building suppliers nationwide. ●

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Learning Center  
[flowguardgoldbuilder.com](http://flowguardgoldbuilder.com)



# Frame

Outdoor Spaces PG. 40 |

Density, Detached PG. 44 |

Home Automation PG. 46 |

Indoor Air Quality PG. 50 |



## DEMAND DRIVERS

These four projects offer smart responses to market trends and buyer preferences

Trent Bell





1

**PROJECT** The New American Home 2013

**Location** Henderson, Nev.

**Builder** Blue Heron Construction, Las Vegas

**Architect** Blue Heron Architecture, Las Vegas

**Interior Designer** Blue Heron Interiors, Las Vegas

**Producers** BUILDER and NAHB Leading Suppliers Council, Washington, D.C.

**Ask any interior designer or architect** about the trends most in demand with home buyers these days and you'll likely hear about indoor/outdoor connections. "Today's freshest layouts incorporate outdoor living into the design of the home, rather than just tacking on a front porch and back patio," says Aurora Zeledon, content manager of the house plans group at Hanley Wood, BUILDER's parent company.

Las Vegas-based design/build firm Blue Heron is known for taking this focus on al

fresco spaces to the extreme. In most of its homes, visitors can't tell where the interiors stop and the outdoors begin thanks to plentiful glazing, sliding doors that disappear into walls, and inviting decks, patios, and courtyards.

In what may seem a contradiction, Blue Heron's practically open-air homes also meet the highest levels of energy efficiency. The key, says Blue Heron founder/owner Tyler Jones, is in smart passive solar design. "It's all about strategies using the architecture and

orientation of the house to control the sun and keep it off the glass," he says.

The company does this by spec'ing overhangs of up to 5 feet, aluminum louvers, and vertical sun blocking on the south and west sides of its houses that inhibit direct heat gain but facilitate sunlight and views. Design software helps with this task to ensure the interventions look as good as they function, and designers carefully consider window and door placement and opportunities for cross ventila-

Trent Bell



### OPEN AND SHUT

Blue Heron employs a range of strategies that open its homes to fresh air and sunshine while maintaining energy efficiency and comfort, and the right products are crucial to meeting these requirements.



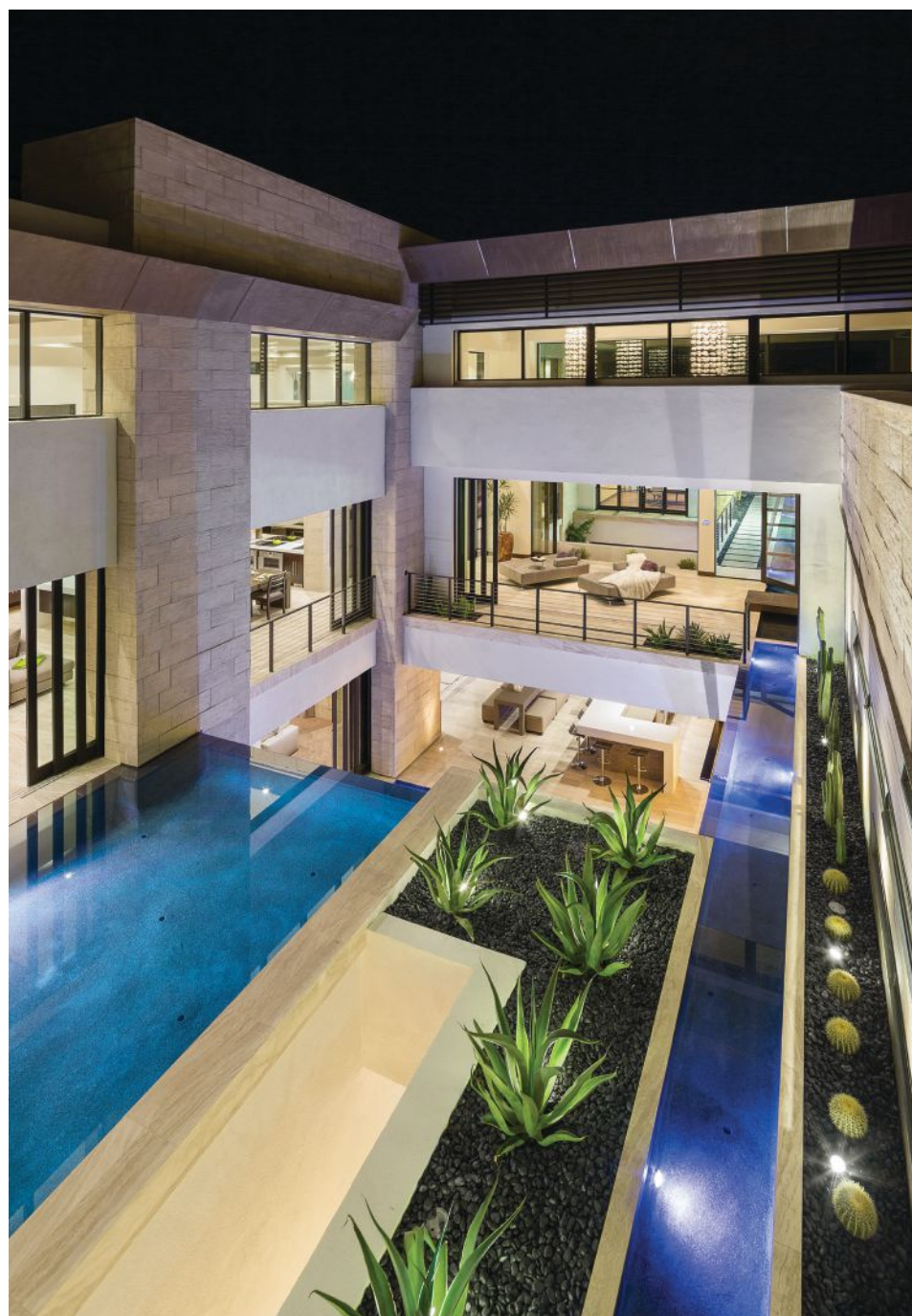
### SIERRA PACIFIC

Energy-efficient windows and doors maximize views, breezes, and daylighting while optimizing performance. In the 2013 New American Home, project planners spec'd Sierra Pacific windows with low-E insulated glass and sliding doors that disappear into wall pockets when open. In the great room (shown above), the manufacturer's 90° Multi-Slide Doors open an entire corner of the room to the outdoor pool area.



### PHANTOM SCREENS

Insect screening is required, even in the desert, but the Phantom Screens used in the 2013 New American Home do much more than just ward off pests. The retractable screens with various mesh options provide privacy and help to reduce solar heat gain. The mesh size used in the 2013 New American Home provides up to 90 percent blockage of UV rays.



tion and humidification from water features. The multipronged approach is effective: Clients often are able to turn off their A/C for several months of the year.

Blue Heron's commitment to indoor/outdoor living is embodied in the 2013 New American Home, located in a gated community near Las Vegas. The LEED Platinum, multilevel show home is a model for energy efficiency as well as envelope-pushing design, and almost every room has an outdoor connection. Project plan-

ners integrated and alternated outdoor spaces with protected, shady interiors to provide relief from wind and heat. The project also includes a pool and water features interwoven among covered and uncovered porches, patios, terraces, and a striking sunken living room.

"People in any market like to have these connections to the outdoors," Jones says. "We're lucky because we can take it more to the extreme because we have such a great climate." — JENNIFER GOODMAN



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## Frame

**DENSITY, DETACHED**

**With parcels in high demand and short supply,** cutting-edge jurisdictions are adopting small-lot ordinances. Los Angeles did this 10 years ago and now has the model down pat. Zoning in the Echo Park neighborhood allows detached homes to be built on lots as small as 1,500 square feet, paving the way for Gaspar. The project's 10 homes fit snugly on what was formerly a single 15,000-square-foot lot. An 8-inch gap between the houses qualifies them for fee simple ownership.

"Fee simple ownership attracts a larger buyer pool than condos, which limit the size of the FHA loan that goes toward purchase," says Alan Scales, studio director at KTGy Architects, which designed Gaspar for Planet Home Living. In addition to reducing construction liability for builders, the detached homes that small-lot ordinances make possible also eliminate the need for an HOA, further lowering homeowners' costs.

At Gaspar, where a slope ran diagonally across the site and the first floor entryway is 10 feet lower than the rear street-level garage, KTGy stepped the structures by bringing the retaining walls into the foundation. "It eliminates severe edges and the neighborhood disconnect that starts to happen when you put homes on a platform," Scales says. The second-floor garage level houses the master suite; a staircase leads down to the secondary bedrooms and flex space, and then up to a roof deck with views of downtown LA. Progressive front and back elevations juxtapose with warm colors and materials found on traditional homes—fiber cement lap siding, stucco, and Cor-Ten accents. Primary windows are on the street, lending a neighborly, pedestrian-friendly feel.

"It's all about trying to make a lot out of a little" on these homes, Scales says: great rooms with kitchen islands for entertaining, furnishing flexibility, and designer touches. Planet Home brought in local artisans to do something as simple as an Escher-type tile backsplash in the kitchens. Small-lot ordinances get builders into established neighborhoods. As infill evolves, "jurisdictions will begin to understand the benefits of a compact footprint with land ownership and long-term neighborhood commitment in mind," Scales says. — CHERYL WEBER, LEED AP

# 2

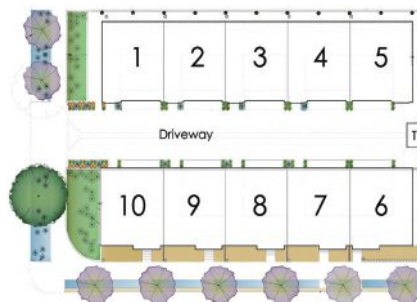
**PROJECT** Gaspar  
**Location** Los Angeles  
**Builder/Developer**  
Planet Home Living,  
Newport Beach, Calif.

**Architect** KTGy Group,  
Irvine, Calif.  
**Interior Designer**  
Madison Modern Home,  
Glendale, Calif.  
**Total Acreage** 0.34  
acres

**Unit Size** 1,893 to  
2,082 square feet  
**Price** Starting at mid  
\$700,000s



### PLAN: Smart Density



### GETTING ALONG

Compatibility is key to designing these dense projects. Cities are pressuring developers to respond appropriately to neighborhood context, Scales says. Trying to maximize the building envelope or allowed density results in community pushback and 11th-hour delays that shape the project in unwelcome ways. "The more we can do upfront, the better," he says.

Site Plan: Planet Home Living; Photos: Chang Kyun Kim





## DETAIL: Small Lot Design



### IT'S A SMALL-LOT WORLD

Los Angeles has received several Urban Land Institute awards for its small lot guidelines, which address neighborhood context. "You may have to step down a three-story building to two stories if you have one-story buildings next to you," Scales says. In LA, KTG is working on more than 20 small-lot developments. One misconception about small-lot housing is that density is being added to areas that wouldn't otherwise allow it, Scales says, but it's typically slotted for areas

already zoned for multifamily.

Details dictate the success of these projects, such as how to resolve the 8-inch airspace between homes. Expansion joint covers—a waterproof detail that conceals the separation—can be flush with the buildings or slightly recessed so they "complement the architecture," Scales says. "If you haven't spent time designing that detail, it can look like a big zipper that goes up over the building," he adds. At Gaspar, the metal expansion joint is flush with the surface and painted to match.





3

**PROJECT** Meritage Homes' dwellings across the country (Houston, Texas, shown here)

**Builder** Meritage Homes, Scottsdale, Ariz.

**Location** Arizona, California, Colorado,

Florida, Georgia, North Carolina, South Carolina, Tennessee, and Texas

*In just a few years, home automation has moved from an after-market afterthought to a new-home must-have. Tech-savvy owners expect to be able to monitor and control their homes with 24/7 remote access to lighting, locks, HVAC, security features, and more.*

As automation becomes an integral part of Americans' lives, many builders are working to catch up with the growing field. Meritage Homes is ahead of the game by making wireless technology accessible to buyers at all price

points with a basic system that comes standard with its homes. At a retail cost to the builder of about \$450, Meritage equips its homes with Trane programmable thermostats that connect with Nexia's Home Intelligence System for control of thermostats, lights, cameras, electronic door locks, and more through wireless Z-Wave technology.

These offerings are in line with the features that consumers most want from home automation, according to a new survey from Lowe's.

The most important drivers are safety and security, followed by saving money on energy.

Nexia's flexible open-source system can adapt as technology changes or users' needs fluctuate, Herro says, a main reason why the production builder decided to partner with the firm. Via Nexia's website, customers order the plug-and-play products, which are shipped to the home where owners install them. Everything from water valves and light switches to electrical receptacles and smoke detectors can

Courtesy, Meritage Homes





connect with the system. Meritage takes no markup on the products, and about 10 percent of buyers are opting for these add-ons—a number that CR Herro, Meritage's vice president of energy efficiency and sustainability, predicts soon will rise. "I think we're right at that tipping point for home management," he says.

Herro believes demand for smart homes is about to explode, much like smartphones did a few years go. "It enables your home to have a personal relationship with you," he says.

Herro already is looking to the future when the home automation field likely will encompass intuitive capabilities such as enabling a home to communicate with utility companies to reduce usage during peak energy times. "I think this is the next phase—right now you're pushing information to your home, but soon your home is going to start pushing information back so you can make better choices and so your home can adapt to you." — JENNIFER GOODMAN

## Frame

### HOME AUTOMATION

#### GET SMART

A recent survey shows that safety and security are homeowners' most important reasons to live in a smart home. Fifty-two percent of Americans said that having a smart home is at least somewhat important to them.

#### CONSUMERS' TOP REASONS TO OWN A SMART HOME:

**50%**

to make their home more secure

**46%**

to monitor activity around their home when they are away

**40%**

to cut costs and save money on energy bill

**35%**

home would be more convenient overall

**29%**

better protection from floods, fire, and other natural disasters

**13%**

to feel more tech savvy

— Source: Lowe's 2014 Smart Home Survey

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*The EPA's Energy Star* for new homes is one of the most well-recognized certification programs for new homes in the construction industry. It's an indication that a home is up to 30 percent more energy-efficient than a house built with standard construction practices. But the EPA has expanded on Energy Star by adding Indoor airPLUS to help builders meet the growing consumer interest in homes with improved indoor air quality. Indoor airPLUS "builds on the foundation" of Energy Star, says the EPA.

Atlanta-based Beazer Homes has embraced the initiative: Its Phoenix division certifies all of its homes under the program. The company says it was an easy call because all of its homes are already Energy Star-rated. "We feel that it's an additional feature in our homes that promotes the value and desire we have to build high-efficient, high-quality homes," says purchasing manager Brian Shanks.

Though airPLUS builds on Energy Star, it provides additional construction specifica-

Mark Skelny





**PROJECT** Abilene Plan,  
Morning Sun Farms

**Location** San Tan  
Valley, Ariz.

**Builder** Beazer Homes,  
Atlanta, Ga.

**Architect** Kephart  
Community Planning  
Architecture, Denver

**Square Footage** 2,877  
to 2,919 square feet

**Average Lot Size**  
5,700 square feet

**Price** \$212,900

tions to provide comprehensive indoor air quality protections in new homes. "It requires some additional air-sealing techniques and other HVAC and ventilation things," Shanks explains. The idea is to make the house a better place to live, especially for those who suffer from respiratory issues.

According to the EPA, builders must implement a series of procedures and product specifications for their homes to be certified under the program. For example, builders must use

hard surface flooring in the kitchens, baths, and entries; install approved radon testing; avoid duct systems in the garage; insulate and seal basements/crawlspaces; use low-formaldehyde wood and other materials; and specify low-VOC interior paints and stains, among many other requirements.

By constructing homes that meet airPLUS specifications, the EPA says, builders can distinguish themselves by being among the first recognized by the agency to offer homes that

deliver better indoor air quality. Beazer started certifying its Phoenix homes under Indoor airPLUS on Jan. 1, 2014, and does not add a premium on the homes. The company likely will certify all of their homes under the program.

"For lack of a better term, we are using this as an incubator to make sure we use good construction techniques, and we worked through all the details so we can promote it out to our other divisions," Shank says.

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Colin Lenton

## BACK TO SCHOOL

Traditions succeeds by veering from its plan at Penn State  
By Les Shaver

**When Tim McCarthy launched** Radnor, Pa.-based Traditions of America, he relied on personal experience to formulate his business strategy.

“When I started, I was seeing my parents age,” says the managing director of Traditions, a company that focuses on building senior housing. “The thing that was overwhelmingly obvious is that no one was catering to their needs. No one was building new, modern homes with nice community ameni-

ties. And they weren't building them where people lived. Everyone was building them in Florida or Arizona or Colorado."

So when McCarthy started the company in 1997 (after he began as multifamily developer in 1985), he built a business based on simple, immutable concepts. He mainly stays in Pennsylvania (he says the tax climate benefits retirees), looks for sizable pieces of land that can yield 250 homes at 4 homes per acre, and builds communities with a lot of amenities. He also wants to be in markets with at least 10,000 customers that are age and income qualified because—as McCarthy learned with his own parents—most people want to age in their hometown.

"The major premise of our business plan was that most people want to stay close to home," McCarthy says. "They like where they live. They're going to stay pretty close to where their children and grandchildren live."

That's why it's more than a little ironic that one of McCarthy's best-selling communities relies on transplants from around the country. But, despite the amount of miles these buyers are traveling, many of those customers probably would say they're returning home.

#### *A Risky Bet*

After a decade in business, McCarthy wanted to expand his business into Western Pennsylvania. He bought some dirt in Harrisburg and another big parcel in Pittsburgh. After that, there was only one market that had the size to accommodate his type of development. But even then, going into State College to buy an 84-acre site for 282 homes 2 miles from Penn State's campus was a bit of a leap of faith.

"Penn State is probably the smallest market we've gone into," McCarthy says. "It has a big university population, but it's still relatively small. We took the risk because of the alumni base."

Traditions' State College community, Liberty Hill, has attached and detached homes, and provides residents with more to do than just wait for football season to start. The community, which has 13 floor plans, offers many of Traditions' usual amenities such as walking trails, a state-of-the-art fitness center, a heated outdoor pool, a two-story, 10,000-square-foot clubhouse, and a full-time lifestyle director to coordinate activities.

**"THE MAJOR PREMISE OF OUR BUSINESS PLAN WAS THAT MOST PEOPLE WANT TO STAY CLOSE TO HOME. THEY LIKE WHERE THEY LIVE. THEY'RE GOING TO STAY PRETTY CLOSE TO WHERE THEIR CHILDREN AND GRANDCHILDREN LIVE."**

"We get really focused on creating an experience and a lifestyle that's aspirational and better than what customers are living in today [in their current house]," says Nathan Jameson, partner and director of operations at Traditions.

But at Penn State, Traditions also was able to provide a new amenity. "What's really special is that we're a satellite campus for Penn State's Institute for Lifelong Learning," McCarthy says. "Its great program that Penn State has where they take a substantial amount of the university curriculum and they offer it to retirees at really nominal costs. Having that accessible to where you can walk out the door and take a course is certainly a neat opportunity—and you can't fail."

#### *Slow Start*

In most of Traditions' communities about one-third of the buyers come from outside of the immediate area. To succeed at Liberty Hill, Traditions would need more than one-third of its buyers to come from outside State College. Basically, the community's success required Nittany Lions to come home.

But when the economy tanked in 2008, McCarthy saw a significant reduction in the number of customers who moved to his communities from other areas. That was especially true at State College.

"I think during a recession people are less likely to move and make a major change," McCarthy says, adding that this affected Traditions' State College community more than the others.

But as the economy turned, things changed. Now, Traditions is selling five homes a month at State College. "As the economy started gathering steam a few years ago, our sales took off again," McCarthy says. "The amount of people moving back to State College really picked up. People are able to sell their home. They put major decisions on ice for a

few years, and now they're making moves."

In fact, sales are so good, Jameson says, you'd think Traditions was selling in Florida, not Pennsylvania. "State College sales look like resort-style sales on the coast," he says. "Most customers are moving in from out of town because they have an affinity for the university. To be able to perform at that level tells me the university is a substantial driver of traffic and sales."

McCarthy says 99 percent of the residents view Liberty Hill as their primary residence, which he found surprising. "I expected that some people might buy a house at State College to be there during football season," he says, but many live there year-round, give or take a few months. "Plenty of them won't spend the winter there. They may own a place somewhere else or go to the Bahamas or somewhere for two or three months and come back by spring."

#### *Staying the Course*

Despite the success of Liberty Hill, McCarthy, who has five projects in his pipeline, doesn't expect to start specializing in building active adult communities in areas near colleges and universities.

"We will do it again, but I will not build a business plan around it," McCarthy says. "I don't think it's true that all Americans want to move back to where they went to college. If someone lives in Philadelphia and their kids and grandkids are in Philadelphia, I don't know if they want to pick up and move and move to Penn State or Duke."

Instead, McCarthy will continue to follow the template he began with—build retirement communities near where people live. "For us the priority will be talking to customers, seeing how they're behaving, seeing what they're interested in, and seeing where they want to live," he says. "I don't want to be playing a game of forcing a product on the customer." **B**



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## BUILDING A BRAND

Manish Shrivastava brings Fortune 100 experience to his new role at PulteGroup. By Les Shaver

**Manish Shrivastava** knows powerful brands. At the Coca-Cola Co. he held roles leading the brand team and the global and North American shopper marketing functions. At Home Depot, he managed a department that oversaw loyalty programs, Hispanic/African American marketing, marketing for contractors, and installation services. And, all of this came after he got his start in the famed Procter & Gamble brand management program.

The home building industry's brands may not have Coke's global reach, but Shrivastava,

PulteGroup's new vice president and chief marketing officer, says brands are still important. "Brand does play an important role for specific segments of the new-home industry and for certain steps in the consumer's decision journey," he says. "Our Del Webb brand is very strong because it has historically had a differentiated proposition that is valued by the target audience."

Through his tour of the Fortune 100, Shrivastava mastered online community development, consumer research, and brick-and-mor-

**"THIS INDUSTRY HAS A VERY COMPLEX VALUE EQUATION THAT HAS TO BE FULFILLED FOR A CONSUMER."**

tar retail. Despite his diverse marketing résumé, Shrivastava knows home building will present new challenges. Instead of spending a couple of dollars on a Coke, home buyers have to navigate a much trickier value proposition that includes the cost of the house combined with elements like location, amenities, and number of bedrooms. "This industry has a very complex value equation that has to be fulfilled for a consumer," Shrivastava says. "Some of the other businesses I worked in were much more straightforward in value creation."

### *New Frontiers*

With the Internet and social media, there are myriad avenues for marketers to reach the customer. But those come with pitfalls, too. "When I started my marketing career at P&G, it was really straightforward," Shrivastava recalls. "If you produced a good television ad and spent money behind it, your brand volume typically went up."

Technological advances have changed that equation, offering more ways for companies to disseminate information to their audience. Firms need to prioritize their marketing spend.

"Now being a marketer is more difficult than 20 years ago because of fragmentation of media consumption by consumers," Shrivastava says. "We have to be thoughtful about where we place our media as well the content we put in our communications."

But there are benefits, as well. Customers "can take that message over and share it in liquid way," he adds. "Social media facilitates the ability to have a liquid message."

Shrivastava sees potential in using a variety of sources and opportunities for home building marketers to take customer outreach to a new level. "There's an opportunity to inspire consumers visually," he says. "There's an opportunity to be smarter about how we invest out marketing resources across a variety of media. And, there continues to be an opportunity to be more differentiated versus one another." **B**

Mark Hill



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## SEEKING STABILITY

MBK Homes found a countercyclical answer to the Great Recession in multifamily  
By Lindsay Machak

**Tim Kane panicked.** As the economy got worse, the MBK Homes president wasn't sure how to secure the future survival of the Irvine, Calif.-based home builder.

"At that time, we were thinking that this was not part of our worst-case scenario," he says. "This was much more severe than we had anticipated. It was really after 2009 when we started thinking about how we are going to prepare ourselves [in the future] if something happened again."

That's when Kane and his management team decided they needed a new strategy. They rehabbed distressed REO properties and contemplated getting into single-family rentals. But Kane couldn't figure out an exit strategy. After poring over research and talking to consultants, the team decided multifamily rental housing would be MBK's future stabilizer.

"The rental market does not have the same ups and downs as the [single-family] housing market," Kane explains. "The two businesses together are complementary because the more steady approach on rental is a complement to the more erratic housing approach."

Less than two years ago, MBK invested in the San Diego market with its first for-rent project. Ocean Air Apartment Homes, in Torrey Hills, Calif., includes 100 townhomes and luxury flats. The firm's second rental community, Palisades at Sierra Del Oro, broke ground in Corona, Calif., in November.

The goal is to have a company with about 50 percent of the business coming from either side of the market, with the ability to switch gears and ramp up one side or the other depending on the economy. Kane hopes the firm will be fully integrated within the next five years. Regardless of what happens next, Kane is prepared. "I'm proud of what we've accomplished," he says. **B**



Patrick Stratner





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# Sweet Dreams Are Made of This

## How to manufacture desire, delight, and demand

BY KAYLA DEVON, JENNIFER GOODMAN, AND SHARON O'MALLEY

# Show and Tell

THE NEW HOME CO., ALISO VIEJO, CALIF.

**Though The New Home Co. was** founded only five years ago, it's already lived up to its name by staying on the forefront of what buyers want with innovative and award-winning homes and communities. In fact, the company, which went public in 2014, has received more than 100 awards in the past five years.

"We always test ourselves. It's not that we're consumed with being trendsetters. We're consumed with figuring out the next great thing," says Joan Marcus-Colvin, senior vice president of sales, marketing, and design.

The company is known for merging indoor and outdoor spaces, particularly in the kitchen. Though outdoor living has always been important to the company's California location and lifestyle, Marcus-Colvin says a set of French doors just doesn't cut it anymore.

Buyers want their indoor and outdoor spaces to fuse together, meaning large accordion-style doors that fold away an entire wall for maximum open space to the outside patio and garden. It's also ideal for al fresco entertaining, adds Marcus-Colvin.

The firm also emphasizes the concept of a "family office," a place where parents as well as children can access computers and tablets to check email, pay bills, do homework, and play games. Marcus-Colvin describes this family work space as an area between the garage and the kitchen—located where the mudroom usually is—outfitted with a large island and plenty of cabinetry for storage of projects, backpacks, sports equipment, and crafts.

The concept of the family office is a case study in how trends are discovered and vetted at the New Home Co. The space was first created for a client's custom home and was then adapted into a concept floor plan and tested in focus groups, which Marcus-Colvin says is one of the best methods for gaining knowledge. With a lot of positive feedback, the firm has now adapted the family office concept in its homes and communities at all price points.

"That room easily could be a super laundry room, but I did super laundry rooms 15 years ago. There's nothing new about that," says Marcus-Colvin. "Our responsibility is to figure out how families are living today. Everyone being on their tablets or phones at the same time—that wasn't the case five or 10 years ago."

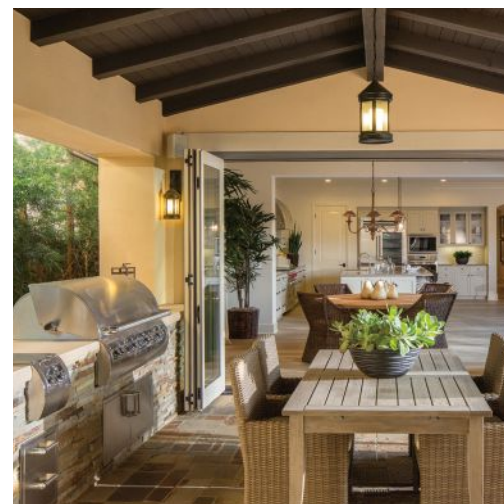
To show off these new trends, there's nothing more important than merchandising, according to Marcus-Colvin, and the company has won many awards specifically for its merchandising and interior design.

"The merchandising is so critical and so much an extension of our marketing that we spend an inordinate amount of time on our interior design and merchandising. It's much more than just merchandising," says Marcus-Colvin.

The New Home Co.'s interior design firm, Meridian Interiors, plays an active role in all aspects of building the homes from floor plan design to the finishing touches. By being included at all levels, the interior designer can help define a space and its function rather than having to tailor the function to the space after the home is built.

However, when promoting their latest offerings, simply marketing to potential buyers isn't enough. The New Home Co. is adept at reaching out to the entire building industry so that more builders and designers think about these new innovative spaces. And the best way to reach industry insiders is through strong public relations, says Marcus-Colvin. She makes it her job to interact with journalists, bloggers, and other industry pros, unlike some home building firms that take a "no comment" approach to media inquiries.

"If we can get newspapers and magazines and anyone out there who is interested in home product design to take a look and be inspired to write about us," says Marcus-Colvin, "that is worth a heck of a lot more than any paid advertising." —K.D.



Michael Kelley





**Modern Spaces** The New Home Co. meets consumer demand by offering fresh designs that evolve with buyers' changing lifestyles. For example, the firm markets innovative spaces such as large indoor/outdoor living areas and family offices that give everyone in the home a dedicated work place.





# Course Correct

EVANS COGHILL HOMES, CHARLOTTE, N.C.

**When Evans Coghill set out to sell** its homes in the brand-new Riverwalk community in northern South Carolina, company officials figured the sports-centric development would be a slam dunk with young and middle-age buyers.

While its hiking trails, kayak spots, and nearby velodrome have been popular with these age groups, two-thirds of sales so far have come from baby boomer customers, a demographic that the company hadn't planned to market to at all. Nevertheless, older buyers flocked to Riverwalk after seeing an ad in the local paper that promoted the company's downstairs-master ranch houses.

Up until that point, chief marketing officer Alan Banks was skeptical that the firm was getting any play from its print ads, but the response from this one changed his mind; in fact, several boomer buyers showed up to Riverwalk with the newspaper in hand. The company is now retooling its product line to include more master-down offerings at Riverwalk and beyond.

From this lucky mistake, company officials learned not to make assumptions about what their buyers want. They also realized that contrary to popular opinion, print advertising is not dead. "We dismissed a demographic and an ad source only to find out they

were both a niche we should have been exploring for Riverwalk," he says.

Founded in 2001, Evans Coghill's success has been built on taking chances. It was one of two home builders that initially signed on to Riverwalk, located on the brownfield site of a vacant textile factory in a community struggling with unemployment. During the housing downturn, it expanded its business model to include infill projects near downtown Charlotte. And, the 10-employee company recently began construction in two suburban neighborhoods that survived the recession—River Run in Davidson, N.C., and Cheval in Charlotte, N.C.—where houses

Courtesy Evans Coghill Homes





**New-Home Experts** Evans Coghill relies on blogs, social media, print advertising, and strong Realtor relationships to help get the word out about its in-town and suburban projects, many built on spec. Shown here are homes in the communities of Riverwalk (left) and Cheval (above).

sell on spec from the \$600,000s to the \$700,000s.

Besides the large production builders that dominate the Charlotte market, the firm's biggest competition comes from existing homes. Its mantra with customers is "Why buy new?"—a question that salesperson Forrest Ranson explored in an eight-part blog on the company's website. The article, which has been popular with buyers and Realtors, details how a newly built home can be priced in line with a previously owned one while offering greater energy efficiency and lower maintenance. "In infill neighborhoods especially, this has helped us a great deal," Banks

says. "It helps us position ourselves as the 'New vs. Old Experts.'"

Local real estate agents drive 70 percent of the firm's business so Evans Coghill treats them like valued members of their marketing team. The company hosts weekly meetings with groups of Realtors that promote its new vs. old message and detail available homes and incentives.

Personalized customer service is also key. The Evans Coghill home page invites clients to "Ask Alan" and provides Banks' direct phone line. The promotion has brought in calls from buyers and real estate agents, and Banks quickly refers requests to the right

person at the company. By using a free Internet-based phone system, calls easily can be forwarded within the company or sent to a feature that transcribes voice mail messages into email.

The company plans to expand its social media outreach and recently hired Philadelphia-based ad agency Group Two to help with this. "We haven't figured out how to work it into our infill projects," says Banks. "We're big believers in social media marketing, but I don't believe that social media can sell every home in every situation," he says, a lesson he learned from a group of newspaper-reading baby boomers.—J.G.



**Luxury Living by Design** The high-end builder has made a name for itself by offering single-family homes, townhomes, and condos in Atlanta's most sought-after neighborhoods.







Courtesy/Providence Group of Georgia

# Brand New

THE PROVIDENCE GROUP OF GEORGIA, ATLANTA

**The first question Kelly Fink asked** her new bosses at The Providence Group when she accepted the job of vice president of marketing and online sales four years ago was: “What is your brand?”

“From the outside coming in, I didn’t see a consistent brand,” she recalls. “I came in and learned what the brand was, and I said, ‘The public doesn’t understand your brand.’”

That, she said, was a missed opportunity for the luxury home builder, as it was one of a dwindling number of Atlanta builders that had survived the recession without having to change its name or its business model.

“People didn’t know who those [competitors] were; they had to start from scratch,” Fink says. “The Providence Group came out of the recession with our name intact, but we weren’t doing a great job of using it effectively. Why wouldn’t we do that?”

They do now. Fink and her staff spent a year rebranding the high-end builder, which develops large communities of single-family homes, townhomes, and condominiums in Atlanta’s most well-heeled neighborhoods. They changed everything from the logo to the tag line to the colors the builder used in its literature. And now they use only those recreated elements across the board: in ads, banners, fliers, signs, literature, and online.

“People tell me, ‘Every time I turn around I see one of your signs,’” notes Fink. “If we weren’t consistent, people wouldn’t even notice.”

That they took notice is evidenced by The Providence Group’s sales success: In 2012, the builder closed 225 homes. The next year, it sold 419, edging it into the BUILDER 100. What the builder is selling: large homes priced from \$200,000 to \$1.2 million in amenities-laden gated communities—with lawn maintenance included.

Its new tag line, which appears on a newly redesigned website and all of the builder’s

promotional materials, is “luxury living by design.” Coupled with a major investment in online sales—the company has dedicated a full-time sales professional to work with the 400-plus leads it gets from its website each month—the effort is driving demand for the low-maintenance luxury lifestyle that Fink wants home buyers to associate with The Providence Group brand.

The rebranding has worked so well, she says, that she’s expanding the concept. For the builder’s newest planned community, Bellmoore Park, the marketing group created a brand-within-a-brand in an effort to give the 600-home neighborhood, which will take eight years to build in Atlanta’s affluent Johns Creek suburb, a distinct personality. This time, notes Fink, “we’re creating a brand that people will aspire to.” To that end, the elegant Bellmoore Park website—which includes the Providence logo and tag line plus a separate, but complementary, Bellmoore Park logo on every page—aims to speak to mature buyers who can afford homes priced from \$400,000 to \$1 million. Shortly after the community brand launched, more than 800 potential buyers had registered for a VIP list for updates on the development and invitations to presentations about it. And more than 100 had indicated their interest in phase 1, in which homes will sell for upward of \$600,000.

The separate brand, Fink says, created a “buzz that might not have been as strong” if the exclusive neighborhood didn’t have its own identity. She credits much of the builder’s growth spurt to its enhanced presence on social media, YouTube, Pinterest, and its own carefully crafted new website with a dedicated online sales specialist.

“I don’t know why builders are hesitant to add that position,” she says. “It’s proven itself for us and for many other builders. It’s definitely somewhere you need to spend your money.”—S.O.M.

# Value Engineers

BETENBOUGH HOMES, LUBBOCK, TEXAS

**Most of the house hunters who** walk through Betenbough Homes' models are looking for the best price on their first homes. But by the time they sign their contracts, the conversation has turned to value.

"Energy efficiency is important," says Jean-na Roach, chief marketing officer for the west Texas single-family home builder, named by BUILDER as one of the 10 fastest-growing private builders in 2014. "Healthy families are important to our customers as well. But the cost savings is extremely important."

Still, the builder is committed to packing green features into each of its homes, so its 100 employees are on a constant quest to keep those value-added amenities affordable. "That

is a difficult job," admits Roach, who has been with the builder, which sells entry-level and first move-up homes in Lubbock, Midland, and Odessa, for eight years.

Yet Betenbough Homes sells its units priced from the \$120,000s for \$5 to \$15 per square foot less than national builders in the region, she estimates, a feat accomplished through high-volume purchases for the 700 homes it builds each year, agreements with manufacturers like Kohler to use only their fixtures, and the use of advanced framing—an engineered system that allows the builder to save on labor by framing a home in one to two days and to add more insulation between studs.

The builder passes those savings on to

homeowners in the form of green features that come standard in every home: low-E windows; VOC-free paint; low-flow toilets; programmable thermostats; Energy Star appliances; carpet pads and insulation with recycled content; and energy-efficient lighting.

Roach's challenge: to convince would-be buyers that a Betenbough home is a better value than a competitor's home. Her approach: Show them what's behind the walls of the builder's 1,500- to 2,500-square-foot homes. The builder invites homeowners to tour the jobsite during the framing process and to visit the warehouses in Littlefield and Big Spring where the frames are made. Students in engineering and construction cours-





es at local universities are invited, too. The media sometimes joins the tours. The company's YouTube channel features a video about the framing process. And after everyone has gotten excited about studs that are 24 inches apart and roof trusses that line up perfectly with wall studs, they tell people they know. And those people buy homes.

"It clicks," Roach says. "It just makes sense. ... A lot of times, it's what convinces them to buy the house."

Affordable efficiency sets Betenbough Homes apart from its competitors, and so does its reputation as a faith-based business. No matter how many features a builder packs into a home, it's the relationships the staff

forges with buyers, vendors, trades, employees, and the public that sell homes.

Relationship-building is a natural extension of the philosophy of the company's founder, Ron Betenbough, who mixes his Christian faith and values with his home-building acumen into his business model.

The firm donated \$3 million last year to charitable causes in the community and around the world. It takes employees on missions to developing countries. It sends flowers or meals to homeowners and employees when their loved ones are sick or they're celebrating a milestone.

Roach attributes demand for the builder's homes as much to its faith-based message as to

its green-as-standard product. And that demand has risen in turn: The builder closed 469 homes in 2012, 688 in 2013, and 691 last year.

"The marketing value is in relationships," she surmises. "And the thing is, they're genuine relationships."

So she doesn't write press releases about the employee missions to Africa and Haiti, although the local press has written about them. "We don't use it as marketing," Roach says, pointing to the founder's philosophy: "He says, 'I don't want people to buy homes from me because I'm a Christian. I want them to buy homes from me because we build the best homes at the best price.' ... We've seen fruit from that."—S.O'M.



**Affordable Efficiency** Educating buyers about the benefits of living in a sustainable home is a big part of Betenbough's marketing outreach. The company shows off its advanced framing techniques that set engineered studs 24 inches apart and align roof trusses perfectly with wall studs, making more room for insulation.



## LET'S BUILD THE PERFECT PARTNERSHIP



Bosch home appliances is known as the definitive European kitchen brand. Bosch recently expanded upon its design leadership and recognition in dishwashers with the introduction of a full kitchen suite that showcases the sleek, modern European design that has become synonymous with Bosch.

The new Bosch kitchen offers flush installation that works in harmony with modern and transitional kitchens. With this new line, Bosch integrates the clean aesthetics of European kitchen design with the demands of the U.S. consumers, offering unique options such as the first steam convection oven for the mass premium market. The new line also features SideOpening wall ovens and FlexInduction cooktops that break the boundaries of traditional cooktop burners to accommodate a variety of griddles, pots and pans sizes.

The New American Home will provide a look inside the new Bosch kitchen with products including:

- the 24" Benchmark Custom Panel Dishwasher which operates at a quiet 39 dBA
- the 30" Benchmark Double Wall Oven with Left SideOpening Doors and built-in flush installation (ADA compatible) that offers better ergonomic access to the wall oven cavity
- the 30" Benchmark Speed Microwave Oven which pairs the cooking qualities of a conventional oven with the speed of microwave technology
- the 36" Benchmark Gas Cooktop that features a powerful 20,000 BTU dual-stacked center burner designed to allow for a faster boil time and the flexibility to cook on high heat or simmer
- the 36" Benchmark Glass Canopy Chimney Hood that comes with an internal 600 CFM blower to remove steam, odors and grease without adding distracting noise



### Builder Contact:

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## Entry-Level Home Buyer

**Children** Two children (63% percent have two children)

**Age** Broad age ranges for head of household from 25 to 54

**Education** High school graduates with few college grads

**Income** Most incomes under \$75,000

**Home Values** Generally at or below median

Source: National Profiles of Metrostudy's Housing Consumer Groups





# Chain of Demand

Entry-level progress would spell mojo for move-up segments

BY LES SHAVER / ILLUSTRATIONS BY MATTHEW HOLLISTER

New-home sales disappointed in 2014 as closings fell to 352,830 after hitting 377,529 in 2013. If you include existing sales, it doesn't get much better. In 2013, 5,186,382 homes sold. In 2014, that number fell to 4,681,495.

The primary culprit? The much-maligned first-time home buyer. The proportion of first-time buyers of new and existing homes dropped to 33 percent of the market in 2014—the lowest share since 1987—according to a recent National Association of Realtors (NAR) survey. While, by default, that meant the other categories—move-up and luxury—took up larger portions of the market, no segment really thrived.

What does that mean for the 2015 selling season? Not a lot, other than the fact that it won't be too hard to improve over last year's lackadaisical numbers. "I believe this selling season will be stronger than last year's but not by a huge margin," says Brad Hunter, chief

economist and director of consulting for Metrostudy, the research arm of BUILDER's parent company. "The primary key will be job growth and consumer confidence, which I expect to continue to pick up steam. The secondary key will be mortgage availability, which I think will improve slightly."

Others are more optimistic. "We do anticipate given the job creation and improving economy and consistent rise in prices, which is a big confidence booster for buyers, that home sales in 2015 will be rising about 7 percent," says Lawrence Yun, chief economist and senior vice president of research at the NAR.

The entry-level market—the source of angst in 2014—represents a reason for hope this spring. If that part of the business opens up and takes a bigger share of overall sales, all of the other segments should benefit.

"We're encouraged because the rates are still low and more people are moving into the lower-priced homes, which will release some folks into the move-up and luxury market as

they are able to sell their homes with the new FHA rules and other things that are going on," says David Weekley, chairman of Houston-based David Weekley Homes.

Nelson Mitchell Jr., president and CEO of Dallas-based Historymaker Homes, claims he sees his business growing approximately 20 percent in 2015. Though some of it is due to timing on openings that were delayed, growth in the entry-level and move-up business plays a role, too. "We are anticipating a stronger market in both of those segments," he says.

Basically, the rising tide of entry level ultimately will lift everyone. "I think all three segments will go up in absolute terms," Hunter says. "It's just the share that will change a little bit."

Outside of pent-up demand pushing homeowners up the buying rung from entry-level to luxury, there are a lot of other economic, demographic, and psychological factors that will fuel the new-home market in 2015. As we enter the spring selling season,

here's a look at Hunter's 2015 market-share projections for each segment of the new-home market, along with what will drive those segments in the year ahead.

### **Entry-Level Home Buyers**

#### **28% of the new-home sales market in 2015**

After hitting historic lows in 2014, the entry-level section of the home market should improve in 2015. "The first-time buyers will slowly make a comeback," Yun says. "I think the low point was hit in 2014. We will begin some steady recovery in the first-time buyer percentage this year and more so next year."

Already some builders are seeing improvement. "Part of the whole question that builders are having on national basis is, 'When will the first-time buyer market normalize?'" says Rick Carruthers, executive vice president and Atlanta division president at Century Communities and former CEO at Peachtree Communities, which built entry-level product in the Atlanta market. "We've already seen some improvement in that market."

The question is how much will entry-level grow in 2015. Metrostudy says it will be 28 percent of new sales, but Yun predicts it will be higher in overall home sales. "The normal first-time buyer percentage is closer to 40 percent," Yun says. "Something closer to 35 percent, I would say this is a good definitive turnaround."

One factor fueling Yun's optimism is President Barack Obama's recent decision to reduce FHA's mortgage insurance premiums by 50 basis points. Financial advisory firm Raymond James says the move represents an "inflection point." In a January research report, the firm says, "Against that backdrop, we believe the industry is now poised for a strong reacceleration in sales activity, and a re-emergence of first-time buyers could prove to be a strong tail-

wind for all home builders this spring."

The savings entry-level buyers will receive from this announcement is real. "That will save roughly \$1,000 a year for a typical person taking out an FHA mortgage, which will be a meaningful sum for middle class families," Yun says. "FHA is principally catered to moderate income first-time buyers so this is great news for people in that segment."

Mitchell is also optimistic that the FHA move will help lure first-time buyers into the market. "We believe that there a lot of people on the sidelines in the first-time home buyer market," he says. "There is another wave of people renting and waiting to step into homeownership and those [FHA] guidelines could allow them to do so."

But that's not the only policy move that could increase the entry-level share. In October, Federal Housing Finance Agency (FHFA) director Mel Watt introduced a 97 percent loan-to-value ratio for loans from Fannie Mae and Freddie Mac. Fannie's program launched in December, and Freddie's is expected to come online in March, which would be just in time for spring selling season.

"We've seen some encouraging signs from the FHFA, which controls Fannie and Freddie," Hunter says. "People no longer need to put 20 percent down to have a loan from Fannie and Freddie."

But there's more than just easing up on underwriting standards that could drive the lower priced home market. Builders also have begun to construct lower-priced products to meet the needs of these buyers. "I think the builders like D.R. Horton and LGI are starting to address that segment more, as well as a lot of local builders," Hunter says.

Rental rates also could play a role in the transition. After years of rising rental rates, tenants finally may have had enough. And

with an improving economy and wages and less restrictive underwriting, they may finally enter the market in 2015.

"Rents are rising at 4 percent, which is twice the inflation rate," Yun says. "I think that will begin to get the attention of financially qualified renters to seriously consider home buying. The combination of job creation coming with underwriting standards loosening will up be the trigger, along with rents increasing."

Because, ultimately, Yun contends that many of these renters eventually want to be homeowners. "The surveys consistently show that millennials want to be owners," he says.

### **Move-Up Home Buyers**

#### **57% of the new-home sales market in 2015**

If entry-level sales increase, it makes sense that move-up should follow. With CoreLogic projecting home prices to rise 5 percent from September 2014 to September 2015, owners of existing homes should feel more confident about selling and moving into something nicer or bigger—or both. "As people in entry-level now start to accumulate equity, they will be able to move and that will help the move-up market," Hunter says.

Another factor that could drive the move-up market this spring is buyer psyche. With a strong 2014 that produced 3 million new jobs, buyers are becoming more optimistic and more willing to take the risk of selling their existing home.

"I generally think that people have been reticent to move coming out of the recent downturn," Weekley says.

Now that they have come out of their six or seven year hibernation caused by the Great Recession, many people see that their needs are different than they were before.

"It's folks realizing that their life situation has changed and they want a house that reflects where they are today," Weekley says. "We're seeing more and more people that put off buying decisions going through the downturn starting to come alive and see the different options out there."

The numbers back up Weekley's contention of pent-up demand. "They have been holding on to homes for a longer period than normal," Yun says. "So there's pent-up demand. Rather than holding a home for seven or eight years on average, they're holding on for closer to 10 years."

With low mortgage rates, these people may see an opportunity to buy a more expensive home now than they might a few years from now if rates move up. "We still have really attractive mortgage rates," says Mitchell, who

**“Rents are rising at 4 percent, which is twice the inflation rate. I think that will begin to get the attention of financially qualified renters to seriously consider home buying.”**





Source: National Profiles of Metrostudy's Housing Consumer Groups



**Home Values** Over \$500,000; owns 38% of homes valued over \$1 million in the U.S.

Source: National Profiles of Metrostudy's Housing Consumer Groups



thinks move-up is the strongest segment of the market in the Dallas area. “At least right now, affordability is still really strong. I think people do have more buying power today and that will keep the move-up market strong.”

Outside of increased confidence and an improved economy, some builders are hoping that changes in Washington, D.C., could open up the move-up market. Chris Cates, co-owner of Fayetteville, N.C.-based Caviness & Cates Communities, says the sequester hurt his move-up business in 2014. “The sequester just cut the spigots off,” Cates says. “That just killed the military market.”

Cates hopes a real defense budget could give buyer certainty to buyers in military towns across the country. “In 2014, we didn’t have stability in the military market,” he says. “Most of those buyers have kids and want a bigger house. And I’m hoping that the military market, with a little bit of stability, will start to come back. I think we’ll get more stabilization with a new Congress.”

While it ultimately may sound like wishful thinking, it’s yet another reason why move-up could be better in 2015.

#### **Luxury Home Buyers**

##### **15% of the new-home sales market in 2015**

Last year luxury outperformed the market in 2014. For instance, in the third quarter Redfin released a report saying luxury sales—homes priced at \$1 million or more—rose 9 percent. While Hunter still expects overall volume in that segment to grow in 2015, there are some warning signs on the horizon.

One of the hubs of luxury sales over the past year and a half was Texas, which was driven by an influx of people from California, Florida, Oklahoma, Louisiana, and Illinois. The 2015 Texas Luxury Home Sales Report from the Texas Association of Realtors cited sales volume increases ranging from 9 percent to more than 25 percent for homes at \$1 million or more in Houston, Dallas, San Antonio, and Austin.

But there’s concern that falling oil prices could hurt the luxury market in Texas, and in Houston specifically. “If someone is in the oil business and is a luxury home buyer, they may be rethinking things as far as a purchase in Houston,” Hunter says.

On the ground, the situation doesn’t seem to be that dire—yet. Weekley, who builds homes in excess of \$2 million or \$3 million in the Houston market, hasn’t felt the effects of declining oil prices so far. But he has met with oil executives and is monitoring the situation into 2015. “The real question is how long [oil] prices stay low,” he says. “It’s not an

immediate issue because a lot of oil and gas projects take a long time to come on and they’re very long-term projects. If they come back within a few months we’d feel little better. If they stay down for a couple of years, we’d feel a lot more impact.”

Nationally, the luxury market looks susceptible to other factors. If the stock market stays in its early year funk, luxury sales could suffer. “Luxury will be driven by the stock market,” Hunter says.

But if the Federal Reserve continues on the same path with its monetary policy, Hunter thinks things will stay about the same. “It will continue to be supported by the Fed’s supportive monetary policies. But if that changes and the psychology turns the other way that could hurt luxury housing.”

The luxury market also could benefit from demographic drivers as well. If entry-level buyers come in and push existing homeowners into the move-up segment, that could push move-up owners into luxury. And, as millennials start to graduate from college and look for their own housing, Weekley thinks their parents will look to buy nicer homes, even if they aren’t bigger. He says parents often will take excess funds once their kids are out of college to “buy the home they’ve always wanted. It’s not always a move down. Oftentimes they want nicer homes on a golf course or on a lake and all kinds of different things than when they had kids and were bound to a school district.”

And they also may prefer urban areas. Historymaker’s Mitchell says his Rendition Luxury Homes line has done well with well-located, brownstone communities in high-end Dallas neighborhoods, and he expects this to continue into 2015. While buyers may be giving up square footage, they’re moving into strong, high-barrier locations with high-end appliance, flooring, and fixtures. Customers are paying \$330 to \$350 per square foot for these homes, which is expensive in Dallas.

“I think it’s a strong buyer market,” Mitchell says. “It’s an empty nester that’s tired of all of the square footage. In a lot of cases, these people own two to three homes, so they want a nice lifestyle in an urban setting where they’ve got all of the amenities, restaurants, and grocery stores, and are walking distance to movies and those sorts of things. It’s a highly location-driven deal.”

Location is equally important in other markets. In the Carolinas, Cates sees coastal areas remaining strong into 2015. “The retiree market heated up on the coasts,” he says. “Myrtle Beach is very good. We’re going to be active in coastal areas.” **B**

**“In a lot of cases, these people own two to three homes, so they want a nice lifestyle in an urban setting where they’ve got all the amenities ... It’s a highly location-driven deal.”**



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# LANDSCAPE

## NAHB Chairman's Letter

### Two Essential Goals for 2015

New NAHB chairman of the board outlines what's on his agenda for the next year



I'm honored to serve as NAHB chairman this year, and I have two essential goals for 2015. I want to help ensure that the NAHB continues to provide great value for members and to uphold the federation's mission to ensure an optimal business environment for builders and remodelers.

There's a lot on tap for NAHB in 2015; in particular, we need to engage the 114th Congress and move the ball forward on housing finance reform. Our country needs a predictable housing finance system that ensures creditworthy buyers can access home loans; provides a consistent and affordable supply of mortgage credit for single-family and multifamily housing; preserves the 30-year fixed-rate mortgage; and includes a federal backstop to address potential emergencies in the finance market.

This issue has been languishing for years. Lawmakers addressed reform of the housing finance system in the previous Congress, but did not pass legislation. The NAHB will continue to push Congress to act during this session. We also will work with financial regulators, including the Federal Housing Finance Agency and the Federal Housing Administration, to improve credit availability and to promote meaningful housing finance reform.

Regarding environmental policy, we are

fighting a proposal to expand the reach of federal authority under the Clean Water Act. In 2014, the EPA and the U.S. Army Corps of Engineers published a proposed rule that would broaden the term "waters of the U.S." The rule would require costly federal permits for most ditches and streams that flow only when it rains and could extend jurisdiction to virtually any wet spot on a home's property. We are taking a multipronged approach to contest this rule, engaging legislators, state and local officials, and regulators. We are prepared to pursue legal action if necessary.

These are just two of the many issues we are addressing in our efforts to strengthen the residential construction industry. The housing market has been gradually recovering from the Great Recession, and NAHB economists expect this pattern to continue in 2015 thanks to a growing economy, rising household formations, low mortgage rates, and pent-up demand. But for a long-term recovery, we need policies in place that protect home builders and home buyers.

Members and state and local associations throughout the NAHB federation will be taking that message directly to lawmakers March 9-15 during "Bringing Housing Home," our in-district legislative conference.

NAHB members traditionally meet with members of Congress during our spring Board of Directors meeting in Washington, D.C. However, after plans for the 2014 spring meeting were set, Congress changed its schedule and the House was in recess during last year's spring board meeting. In response, NAHB senior officers decided to change the 2014 Legislative Conference into a series of in-district visits with elected officials while they were in their home offices.

The inaugural Bringing Housing Home event was a huge success for NAHB. Thousands of members met with elected officials in 49 states. We're looking forward to another great event this year. — TOM WOODS, NAHB CHAIRMAN OF THE BOARD

## ENERGY CONSUMPTION BY THE NUMBERS



22%

*The residential sector accounts for 22 percent of energy consumption in the U.S., if energy used to generate and transmit electricity is included*



1999

*Homes built since 1999 tend to use the same to slightly less energy than homes built before 1950*

*Source: NAHB's HousingEconomics.com*

## NAHB BRIEFS

### YOU'VE GOT MAIL

Many residential developers are unhappy about the increased emphasis on cluster mailboxes to replace curbside delivery in new communities.

But it's not always a given that traditional service must be replaced. In 2012, the Postal Service revised its rules, making cluster mailboxes the default for new residential development (including infill in areas where older homes still get curbside or door-to-door delivery). Anything else requires local postmaster approval—one more reason to build good relationships with local officials. If you want curbside service for your new-home buyers, consider the following points.

**Security** Just because a development has a common area does not mean that it's well lit or secure. Curbside delivery can reduce risk to residents.

**Accessibility** Postal Service rules mandate that cluster mailbox installations must not require residents to walk more than 1 block for their mail, but even a short walk can be too much for some homeowners.

**Weather** Retrieving mail can be dangerous

## Home Innovation Research Labs

# Resources for Research

Home Innovation will help set a national research agenda for the residential construction industry

The USDA's Advanced Housing Research Center recently selected Home Innovation Research Labs to be the "keeper of the national research agenda" for the residential construction industry. The results we gather will be used to help direct federal funding to cross-disciplined innovation initiatives for the next five to 10 years, and there will be opportunities for all types of industry stakeholders to contribute their ideas.

The goal of the project, dubbed "#Home2020: Residential Construction Industry Research Agenda," is to identify and prioritize opportunities for strategic research investments that will enable the industry to overcome challenges in providing high-performance, high quality, affordable homes. The project is particularly important as home building continues to improve its footing and competitiveness as a major sector of the U.S. economy.

The scope of the agenda-setting process will be very far-reaching to all segments of the residential industry—it will include setting research priorities for both new and remodeled/retrofit one- and two-family dwellings, low-rise multifamily buildings, and mid- and high-rise residential buildings in all geographical locations within the U.S.

Because the residential construction industry is highly diverse, segmented, and unintegrated, there will be several different input-gathering activities aimed at getting various types of information. Depending on the type of stakeholder—including builders, remodelers, architects, engineers, planners, code officials, and building product manufacturers—Home Innovation Research Labs will provide opportunities to identify day-

to-day challenges to accomplishing individual business goals; barriers to industry advancement and innovation; and specific research needs.

Stakeholder activities along the way will include focus groups, surveys, and meetings, but the first and most broad-based channel is an online portal for submitting research need recommendations, which was launched at the beginning of this year. If you have been looking to improve construction methods, develop innovative materials and systems to advance home performance, add value, and cut cost, the #Home2020 Online Portal ([www.HomeInnovation.com/Home2020](http://www.HomeInnovation.com/Home2020)) is the perfect way to have your ideas recognized.

Research recommendations may fall into one or more specific Performance Categories (or additional user-defined categories):

- Construction Processes
- Cost Effectiveness
- Disaster Resistance & Structural Performance
- Durability
- Energy Efficiency
- Fire Performance
- Indoor Environmental Quality
- Resource Efficiency

Recommendations may also be submitted under Programmatic Categories, as appropriate:

- Technology Transfer
- Code Compliance/Enforcement
- Compliance with Above-Code Programs (e.g., Energy Star, National Green Building Standard (NGBS), Fortified Homes, etc.)
- Building Industry Outreach
- Visibility
- Legislative and Regulatory
- Increased Industry Competitiveness

If you have or know of issues within the residential construction industry that you believe need to be resolved through research or the development of industry resources, we want to hear from you. Visit [www.HomeInnovation.com/Home2020](http://www.HomeInnovation.com/Home2020) before March 15 to submit research recommendations; or contact Home Innovation ([www.HomeInnovation.com/Home2020Contact](http://www.HomeInnovation.com/Home2020Contact)) for more information on the overall effort.

or impossible when snow or ice impedes cluster mailbox access.

**Maintenance** Some planned communities have homeowners associations that use dues to maintain common areas, but with new residential developments, who will maintain the cluster boxes and keep them secure?

## THE 50+ MARKET

Many businesses have targeted baby boomers over the years, and so should you. As one of the country's largest age cohorts in size and in percentage, boomers have the most housing equity, the least debt, and the fewest mortgage delinquencies and foreclosures.

Boomers generally do not need to buy. Some may move because a disability makes the current home unmanageable; others are just tired of maintenance and expensive upkeep. Warmer climates still attract potential retirees, but an increasing number of boomers don't want to migrate. They want to be near loved ones, but they also want an improved quality of life and more amenities.

To figure out how to cater to this market, join the NAHB 50+ Housing Council, either through an at-large membership or at the local level. Talk to others who currently are building active adult communities and homes that appeal to this age group, and talk to residents and prospects in active adult communities and in your market area.

## CONSTRUCTION JOBS BY THE NUMBERS



# 145K

The number of open construction jobs for November (on a seasonally adjusted basis)



# 2.13%

On a three-month moving average basis, the open position rate for the construction sector increased to 2.13% in November

Source: BLS Job Openings and Labor Turnover Survey (JOLTS) and NAHB analysis



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## DEMAND FOR NEW HOMES

Existing homeowners are the dominant buyer in the new-home market, not first-time buyers

**New-home buyers are driven** ultimately by their desire for something better. Nine out of 10 purchasers of newly constructed homes reported their new home is the same or better than their previous home. The immediate causes for a move include a better location to work, school, recreation, and people; a larger or smaller home to accommodate changes in the household composition; different costs to align with increasing or decreasing incomes and assets; and better alignment with their current lifestyle, i.e., retirement or newly established independence.

While financial considerations certainly play a part in determining if there is to be a move at all and if so, the most likely kind of transition, the choice in the change is dictated by better alignment with basic housing characteristics such as location, size, and amenities. The U.S. housing market continues to recover from the worst collapse since the Great Depression. Low equity and future income uncertainties were the driving reason why so few purchases occurred over the trough, but the worst is over. Equity positions, income, and mortgage qualification standards remain inhibitors to a fully recovered housing market, but they slowly are giving way to the underlying reasons for a new-home purchase.

According to the Census Bureau and HUD's American Housing Survey, the leading reason to purchase a new home in 2012 and 2013 was room layout and design. That was consistently the top reason during the cycle. However, there was some shifting over the cycle once below the top reason. At the worst of the cycle in 2010, the second-leading listed reason from those who did buy a new home was that it was the only one left. Inventory levels in 2010 through 2012 were at their lowest levels in the 50-year history of the data.

ACCORDING TO THE  
CENSUS BUREAU  
AND HUD'S  
AMERICAN HOUSING  
SURVEY, THE  
LEADING REASON TO  
PURCHASE A NEW  
HOME IN 2012 AND  
2013 WAS ROOM  
LAYOUT AND DESIGN

The new-home neighborhood has become a more important reason for purchases most recently. It was the third reason behind financial issues in 2012 and 2013, but was eighth and seventh in 2011 and 2005, respectively. And similarly, when asked the primary reason for choosing the neighborhood, new-home purchasers reported the house itself was the most frequent reason in the most recent survey. Earlier in the cycle, the look and design of the new-home neighborhood was the top reason for choosing where to buy. Proximity to jobs, family, and friends also scored high over the whole cycle.

Financial reasons were third on the list in 2013 as the market began to recover, down from second on the list at the peak of the market in 2005. Oddly, financial reasons were not high on the list at the worst of the market in 2010 and 2011. Those who were able to purchase were more interested in the right home than any financial issues. Finances such as the cost of the home and the ability to obtain a mortgage are now very close to the top reason of house design and room layout.

The reasons for buying of course do not provide reasons for not buying. All home sales remain below their historic levels, and new-home sales are about half where they would be in a normal market. New-home sales typically are about 16 percent of all home sales, but they're averaging only half that share in the past several years. Distressed existing-home sales have helped maintain a level of used home sales, but new-home sales took the brunt of the fall in demand.

Now existing homeowners are the dominant buyer in the new-home market as first-time buyers remain on the sideline. A recent survey of builders reported half the normal sales of new homes to first-time buyers. As a result, new home sizes and prices have increased because the purchasers have equity from their previous sale and are looking for larger, more amenity-filled homes. The first-time buyers' return to the market in volume is probably a year off.

This year's demand likely will retain the characteristics of the past couple of years as move-up buyers search for the homes that suit their desire for more space, better design than what they left, and a neighborhood close to their job, family, and friends. **B**



**David Crowe**

CHIEF ECONOMIST,  
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Interview With the NAHB's  
New Chairman

# Facilitating the Industry's Comeback

New NAHB chairman tackles more challenges to try to sustain a steady recovery for the home building sector

Interview by Kayla Devon

**Tom Woods, a builder in Blue Springs, Mo.,** with 40 years of experience in the housing industry, started his one-year term as NAHB chairman of the board in January. Woods has served on the NAHB's board of directors since 1983, and has been on the executive board for nearly 15 years.

He also is the president of Kansas City, Mo.-based Woods Custom Homes, which has constructed numerous communities and more than 1,000 homes in the Greater Kansas City area. Shortly after taking office, Woods shared his thoughts on some pressing industry issues with BUILDER assistant editor Kayla Devon.

**Fannie Mae and Freddie Mac have recently set terms to accept down payments as little as 3 percent for first-time home buyers. How will this affect the market?**

It will bolster and help the recovery of the housing market. As you know, one of the biggest obstacles to achieving homeownership is the ability to come up with the down payment, and if you reduce the upfront cash requirements and establish tough but fair underwriting guidelines that include a number of safeguards, it will help many Americans gain access to credit while maintaining safe and sound lending practices.

While there are other impediments that remain, this will open the door to home-



ownership to more American families—particularly first-time home buyers and young households—while minimizing the risk of default. We're very pleased.

**Many have predicted that 2015 will be a good year for the home building industry. What is the NAHB doing to help keep up the recovery?**

We believe that reform of the U.S. housing finance system is still necessary for complete recovery. We've long advocated for and strongly support a housing finance system

that relies on private money and capital and has a federal backstop that would be triggered only under some real severe circumstances after significant levels of private capital are first exhausted.

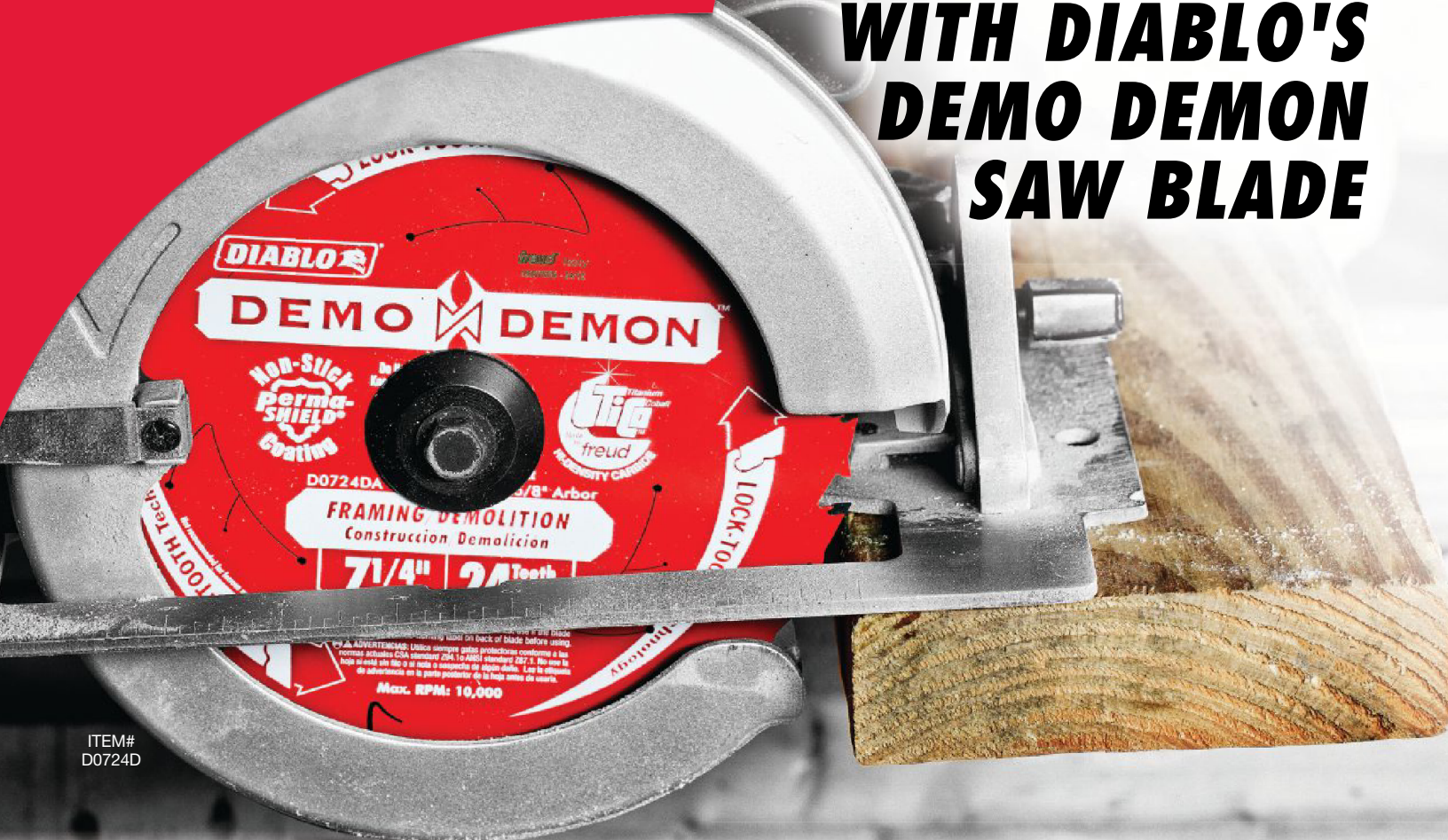
The NAHB will continue to try to engage legislators and financial regulators on the need for a system that provides a consistent and affordable supply of mortgage credit, including a 30-year fixed-rate mortgage as well as financing for new single-family and multifamily construction. We also will emphasize the importance of a consistent and

Ryan Nicholson





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regulated appraisal system and accurate valuations on new-home construction.

***Some fear these low limits are similar to the conditions that led to the Great Recession. Do you see this being a problem, or are there enough safeguards in place?***

I think they have a much better idea of what actually took place. I think there are some indicators, quite frankly, that the down payment amount was not the problem or not the largest part of the problem. Sound lending practices are the key. The VA has offered no down payment loans forever, and if you look at the numbers, they perform quite well even through all of this. Lowering the down payment has little, in my mind, to do with the default underwriting. Just some of the product itself probably had more to do with it.

***The NAHB has taken a critical stance on President Barack Obama's executive***

***action on immigration. Why?***

It's a piecemeal approach to reform and it doesn't provide a long-term solution to this complex and ongoing issue. The executive action could be overturned by a future presidential administration, and that puts the employers in a precarious position with regard to uncertain employment verification requirements.

It's imperative that Congress enact comprehensive immigration reform legislation. Some pretty significant progress was made toward developing comprehensive immigration legislation during the last congressional session, and the administration in the new Congress should build on that foundation to develop a lasting, fair, and workable policy solution.

***Do you see any positives in President Obama's plan, such as a lessening of the labor shortage or increased homeownership by immigrants?***

The problem is the uncertainty, the fact that it could be reversed ... which would mean that workers who were at one time legal are no longer legal, so then what do I do? Builders will have all kinds of employment issues at that point.

***What would you like to accomplish this year as chairman of the board?***

We certainly want to keep the economy growing, but I think it's probably outside my purview. We expect to focus on reform of the housing finance system. This important issue has languished for far too long and we would do everything in our power to see our Congress move forward with comprehensive housing finance legislation.

Likewise, we're going to continue to work with regulators to protect our members' interests on issues ranging from the environment to government housing programs, jobsite safety, energy efficiency, sustainability, and more. **B**

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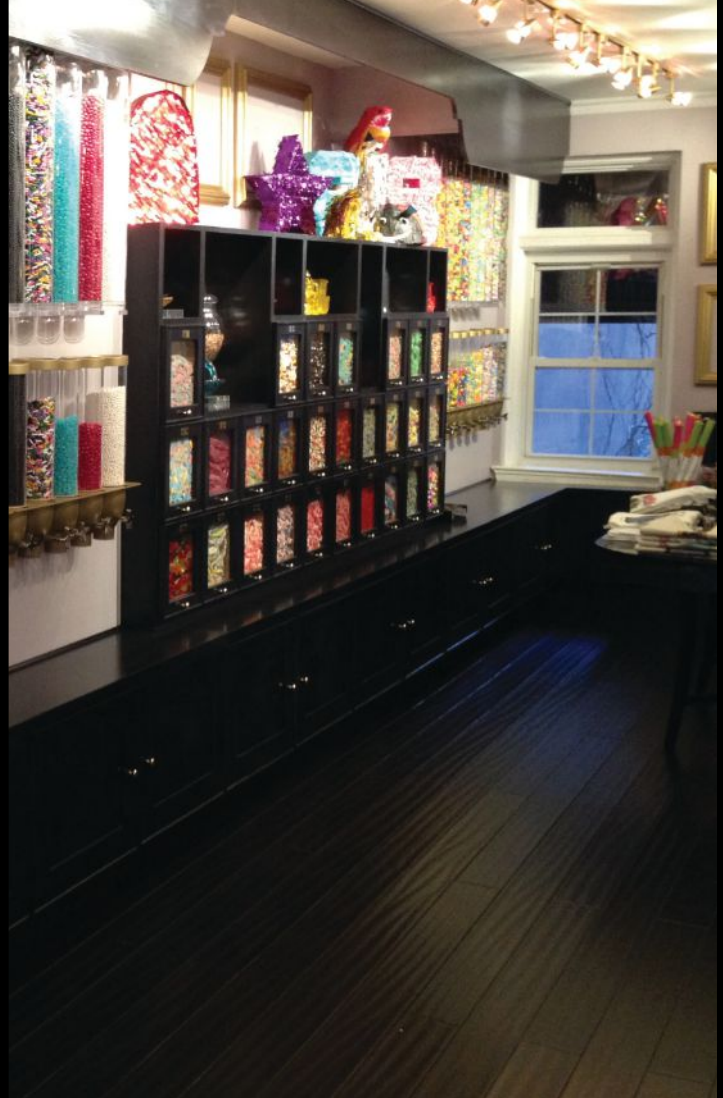
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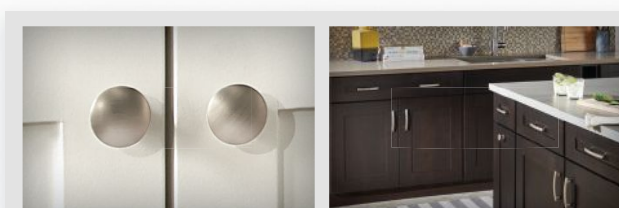
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the number of people  
the U.S. population will  
grow by before 2050

— U.S. Census Bureau

**15.24%**

housing's share  
of the GDP in the third  
quarter of 2014

— NAHB

**58**

straight months  
of private sector  
job growth is the  
longest streak  
on record

— U.S. Department of Labor

**25K**

U.S. properties were  
foreclosed on in  
November; down 10  
percent from October

— HUD

**41%**

of U.S. residents  
say the economy  
is on the right  
track

— Fannie Mae

**48%**

of Americans think  
mortgage rates will rise  
in 2015

— Fannie Mae

**25%**

of Americans indicated  
their household income is  
significantly higher compared  
with a year ago

— Fannie Mae

**\$335K**

average size of  
conventional mortgages  
used to buy new homes  
in November

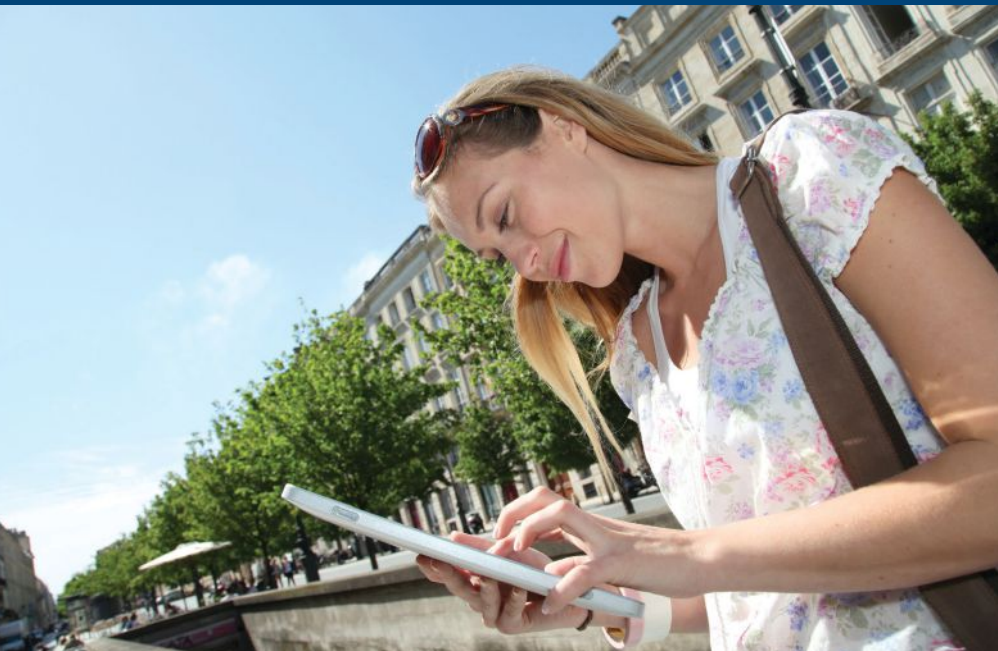
— FHFA

**4%**

the projected  
increase in  
home sales for  
2015

— Freddie Mac





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