

April 2014

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Outside the Box

A new focus on outdoor living spaces

SPECIAL REPORT: HOUSING POLICY

Finance and Tax Reform / 28

Immigration Reform / 36



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THE NUMBERS



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1

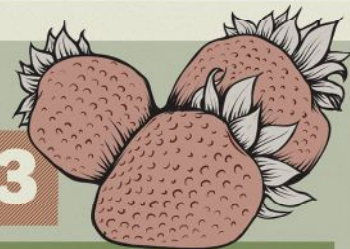
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3



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MPG**

2

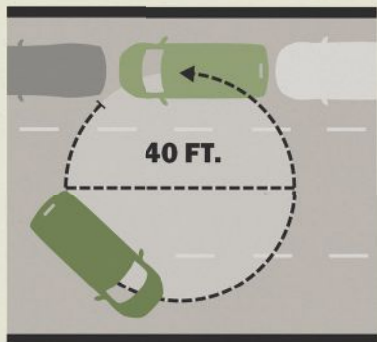
TWO SLIDING DOORS

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4 40-FT. CURB-TO-CURB TURNING DIAMETER



Let's say there are 13,270 cabs in her city. Plus 5,600 buses, 5,150 garbage trucks and 2,564,367 cars. Getting a van load of green peppers across town during rush hour is going to take some **nimble maneuvering.** That's where the Transit Connect really shines.



Running a business isn't easy, especially when your product has a limited shelf life. That's why Transit Connect offers maneuverability, **best-in-class EPA-estimated highway fuel economy,**** and plenty of other smart features designed to help you get the job done and bring home the bacon.

5 HANDS-FREE COMMUNICATION

About 9 times out of 10, the customers who wanted 3 lbs. of peas and corn change their minds and want 4 lbs. of beans. Obviously, the **hands-free calling** that the available SYNC® with MyFord Touch®† offers is handy, and helps keep your digits on the wheel. When you're trying to get from the customer at 2435 Edgewood to the one at 3512 53rd Street, the voice-activated directions and 411 Business Search that come with **SYNC Services††** are nice little numbers to have, as well.



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42

frontofbook

- 07 INDUSTRY PERSPECTIVE**
Fresh ideas and fresh faces
- 09 EDITORIAL**
Rites of spring
- 10 MARKET UPDATE**
Homeownership still out of reach for many;
Freddie Mac's rosy outlook for multifamily;
Taylor Morrison plans new community;
KB Home expands in San Antonio
- 15 HOUSING POLICY UPDATE**
Builders pick likely features for 2014 homes
- 16 EXCLUSIVE RESEARCH**
Top factors for selecting windows and doors
- 20 SALES & MARKETING**
Role playing helps develop selling skills
- 23 BUILDING CUSTOMER CONFIDENCE**
Maintaining a healthy relationship with
homebuyers creates a strong foundation for
referral sales

ON THE COVER:

A private courtyard and summer room add an indoor/outdoor focus to the living space of this 1,440 sq. ft. home in The Pinehills, Plymouth, Mass. Builder: The Green Company

PHOTO: MIKE RIXON



54

[HOUSING POLICY]

28 GETTING BEYOND THE IMPASSE

Can a dysfunctional Congress and a beleaguered White House finally agree on tax and housing finance reform?

[HOUSING POLICY]

36 WORKFORCE WORRIES

Builders press for immigration reform, saying change is essential to the full recovery of the housing industry.

[DESIGN]

42 OUTSTANDING OUTDOOR SPACES

Homebuyers have come to expect outdoor living space that can run the gamut from modest to lavish.

[BUSINESS MANAGEMENT]

48 TAMING THE CHAOS

Complexity is inherent to home building, but you must manage it or it will manage you.

[HOUSE REVIEW]

54 DESIGNS FOR FIRST-TIME BUYERS

House plans for today's first-time buyers must combine value with delivering on their desire for amenities.

[DESIGN]

64 MASTER BATH MAKEOVER

Expanding this bath just enough provides a spa-like atmosphere homebuyers want.

[PRODUCTS]

67 PRODUCT REVIEWS

Outdoor living plus trucks and accessories

[EXECUTIVE CORNER]

74 SALES & MARKETING

Matt Ivey shares how Ivey Homes found a successful medium between in-house sales and outsourcing.

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Fresh Ideas and **Fresh Faces**

In home building, experience counts for a lot. It takes years and, in some cases, hard lessons learned to move forward in profitable new directions. Today there is no shortage of experienced builders who've been through the wars and are now setting the stage for a prosperous run over the next few years. For many, this next housing cycle will be their last before riding off into the sunset.

We do not know the average age of builders, but it is safe to say that the majority are 45 and above, perhaps older. During the last eight years, young people have had neither the opportunity or the inclination to join this industry. Twenty- and 30-something builders are few and far between, but we expect that to change in the coming years. And that is the reason why we have been identifying and telling the stories of excellent younger builders who will shape the industry over the next few housing cycles. You may recall reading about them last month in our coverage of our third annual *Professional Builder* "40 Under 40" list. Their business and design ideas presage the best of what is to come.

That is not to say that home building needs a revolution, but every industry needs fresh faces and new ideas. In fact, one of the industry's most successful young builders, Saun Sullivan of DSLD Homes (now a grizzled 42-year-old), draws deeply on lessons from the past. On more than one occasion he has requested back issues of *Professional Builder* from the '50s and '60s. He recognizes that there are many immutable issues faced by builders of every generation. At the same time, Sullivan is turning many old ideas on their ear. He pays all trades and suppliers in two days. He does not do charge backs. His company handles every warranty call in order to truly control the customer experience and not cede those important client interactions

to a harried supplier's assistant who needs to get in and out of the house in 15 minutes.

This June 10 and 11, we are inviting the industry's young leaders to join us in Newport Beach, Calif., for two days of exchanging ideas and networking. The theme of the first annual *Professional Builder Under 40 Executive Summit* is "Innovating in Business and Design." We are pleased to announce some key components of the agenda. First, business-innovation author Andy Stefanovich will be our keynoter. He is known for helping companies like Coca Cola and Procter and Gamble lead change in their organizations. Our builder keynote is H. Lawrence (Larry) Webb, CEO of The New Home Company, a long-time industry leader who knows a lot about innovating in building and moving forward in profitable new directions. Seth Ring, a division president for Toll Brothers in Southern California and recognized as an Under 40 leader last year, will discuss the thinking behind some



Twenty- and 30-something builders are few and far between, but we expect that to **change in the coming years.**

of his company's newest communities, which are designed to bring younger Millennial buyers into the market. For many attendees, the biggest highlight of the summit will be a tour of brand-new model homes throughout Orange County, historically the cradle of many of the industry's earliest design advancements.

If you are interested in attending our Under 40 Executive Summit in Newport Beach, you can learn more about it at www.ProBuilder.com/PBU40, or you can email me at potoole@sgcmail.com.

We look forward to seeing you in June.

Patrick O'Toole, Publisher | Editorial Director
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Rites of Spring

Spring is here, regardless of the fact that it is snowing in the D.C. area as I write this at the end of March, and it's the beginning, traditionally, of when things really start rolling in home building. The importance of the spring selling season is a given. Winter is over, for the most part, and it's a time of rebirth and renewal. All over the country, people are looking around at where they currently live and are starting to think seriously about spring cleaning or, even better, buying a new home.

And home builders are ready to accommodate them. The models are ready, landscaping is in place, flats upon flats of flowers have been planted, and salespeople stand at the ready. But there's a lot that stands in between thinking about buying a new home and actually signing a contract. We all know there is a lot of pent-up demand. There are young adults still living with their parents, there are young families with more children than bedrooms, and there are older adults who would happily trade the home they've occupied for years for, perhaps, a smaller, newer home that better fits their needs at this stage of life.

Although the National Bureau of Economic Research declared the Great Recession over in 2009, in reality it (or another recession just like it) is still very much with us. Economic forecasts show GDP, business spending, and retail sales all growing in 2014, but polls indicate that many Americans don't see economic improvement of a substantive nature occurring for five or more years.

You can't really blame folks for having a pessimistic attitude. It's been seven or eight years since the rollicking good times ended, and that is a very long time in our collective memories. For Millennials, the hard times are pretty much all they know. So it's easy to understand when home builders say they are feeling discouraged—again. In addition to economic uncertainties, land, material, and labor shortages add to their mix of anxieties. But being discouraged is not the end game; it's simply another challenge to face.

And the way to face most challenges is to focus on what you know and what you can control. Take those Millennials. Why should they buy a home when, for all they know, coming up with a downpayment is nearly impossible, they might lose their jobs and not be able to make their mortgage payments, and they won't be able to sell that house when they want to move to take another job? Well, the resale market has stabilized in most areas, and you've been overcoming those other objections throughout your entire career, no matter what your target market is.

There will always be objections, as well as roadblocks and setbacks. But right now, it's spring and time to get yourself (and everybody else) moving.



Denise Dersin, Editor-In-Chief
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HOUSING DEMAND

MULTIFAMILY

Plans to Own a Home May Not Match With Reality

While current conditions for housing affordability and household formation seem to bode well for future housing demand, a recent study contends that the goal of homeownership and even the renting aspirations of millions of consumers will go unfulfilled.

"Homeownership will still not rise above 65.5 percent of all householders by 2018, compared with 69 percent near the height of the housing bubble," according to "A Tale of 2,000 Cities," released by the Demand Institute, a non-advocacy, non-profit organization jointly operated by the Conference Board and Nielsen. The report was gathered from an economic analysis of 2,200 cities, towns, and villages that are home to half of the U.S. population, as well as interviews with the heads of 10,000 households.

It explains that ownership will be constrained partly by the raft of foreclosures that occurred during the recession and the fact that a considerable proportion of new households forming in the next five years will still rent rather than buy because of ongoing financial constraints. The Institute predicts 30 percent of new-home completions will be multifamily units in 2018, which is double the proportion built when the housing market was booming.

Even though the Demand Institute agrees that the National Association of Realtor's national and regional affordability indexes will stay at historically high levels over the next five years, the conditions that prevent renters from taking advantage will persist. The 2013 survey found 41 percent of households carried a moderate-to-severe housing cost burden. That figure is an increase from a Harvard Joint Center for Housing Studies report released last year, which reported 37 percent of households in 2011 used a third-to-half of their income to pay for housing expenses.

"Of those planning to purchase a home and finance it with a mortgage, almost half are unlikely to obtain the mortgage they would like under their current financial circumstances because they either lack a down payment or the means to save for one, do not have the income to support the implied mortgage payment, or are hampered by concerns about their credit history or related personal finance problems," the report states.

Among households that plan to buy a home in the next five years, 45 percent indicated they do not yet have the level of savings and equity needed to do so. Demand Institute projects 4-million households will be unable to buy a home or even realize their move-up rental aspirations. The research found almost half of households planning to move would consider a lease-to-own option. Other financing alternatives such as shared equity or peer-to-peer lending could help reduce the cost of ownership if they became more widely used.

The report predicts the rate of home-price appreciation nationally will slow and rise an average of 2.1 percent between 2015 and 2018. There will be wide disparities in price appreciation between states, with the greatest percentage increases occurring in New Mexico (33), Mississippi (32), Maine (31), Illinois (31), and New Hampshire (28). The lowest percentage rises are projected for Washington, D.C. (6), Minnesota (13), Virginia (14), New York (14), and Alaska (15). The number of single-family home completions will stay below the previous peak in every state. So home-price growth will make only a modest contribution to overall economic growth.

"That means we cannot expect a slow and steady housing market recovery to undo all the damage the financial collapse caused to many, many cities and towns across America," the report says. **PB**



Freddie Mac Has Rosy Outlook for Multifamily Market

Revenue growth and vacancy rates for the multifamily housing market in 2014 will perform at or above historical averages, although the sector's performance could moderate a bit compared with the previous two years, according to the annual outlook released by Freddie Mac.

The sector has been strong following the recession due to robust demand for rental housing and limited supply. But with multifamily completions rising during 2014 and more new units opening, some metro markets will not follow national trends as supply and demand come into balance. Since 2006, the number of renters has increased by more than 5 million, or 15 percent, and 3.2 million are renting single-family homes. Price appreciation is likely to motivate landlords to sell those properties. If the share of single-family rental houses declines and reverts to its historical average level, then 1 million more households could be looking at multifamily rental properties for a place to live, particularly since they can't afford to buy a home.

The current Freddie Mac Multifamily Investment Index, which measures the relative attractiveness of investing in



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multifamily properties, is 146.3—well above the 124.6 historical average. With the new stewardship of the Federal Reserve committing to a monetary policy that will keep interest rates from spiking, the Investment Index could stay above the historical average for the next two to three years, according to Freddie Mac.

Those conditions attracted Daiwa House Industry Co., one of Japan's largest home builders, to invest as much as \$1.5 billion in U.S. rental housing, starting with acquiring and developing leasing properties in Texas over the next three years. Daiwa said in a statement that it is buying there because Texas has a growing population—particularly Millennials—which the company expects will create more rental housing demand. **PB**

MARKETS

Taylor Morrison Plans New Community Near Austin, Texas

Taylor Morrison Home Corp., will build a master-planned community in Round Rock, Texas, on a 477-acre tract, which the builder purchased late last year.

The development will be called Vizcaya and include more than 1,200 home sites. Land development will begin during the second quarter, and the community is expected to open by the end of this year. The Scottsdale,



Ariz.-based company will offer six product lines aimed at various buyer groups from homes suited for growing families to low-maintenance patio homes that appeal to consumers looking to downsize or live a more carefree lifestyle.

Home sizes will range from about 1,500 square feet to 4,000 square feet. Planned amenities for the Central Texas community include a clubhouse, fitness center, pool, lifestyle director, and walking trails.

"From first-time homebuyers to empty nesters, we are seeing that buyers today are as focused on the community

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experience as they are the features within the home,” said Michael Lindeman, the builder’s vice president of sales and marketing.

Vizcaya is Taylor Morrison’s second major foray into the Austin market. The company also is developing with Toll Brothers Inc., Horsham, Pa., a 2,100-acre community in nearby Leander in addition to building homes in communities at Drilling Springs and Bee Cave. **PB**

KB Homes Expands in San Antonio with New Community

KB Homes acquired land in New Braunfels, Texas, to build 469 homes in a community to be called West Village at Creekside.



Land development will begin by summer, and the grand opening is slated for January 2015.

The community will feature two collections of houses that homebuyers can customize through KB’s Built to Order program. Energy Star certification, Sun Power solar panels, and WaterSense faucets and fixtures will be among the energy-efficient and sustainability features available. Community amenities will include a private swimming pool, picnic pavilion, walking trails, and children’s playscape.

“The Village at Creekside includes a hospital, labs, medical offices, fitness facilities, and serves as a lifestyle center for the local area,” said Brett Dietz, president of the builder’s San Antonio division.

KB Homes already has two neighborhoods in New Braunfels—Caprock and Legend Point—open to new-home sales, and has built 23 communities in the San Antonio market, including the

recently opened Park Vista, Crosscreek, and Esperanza developments.

“We pride ourselves on being one of the area’s first-choice land buyers,” Dietz said. “KB Home’s extensive

market knowledge and strong relationships with local land sellers enable us to identify and quickly secure exceptional opportunities to offer our homes in highly attractive locations.” **PB**



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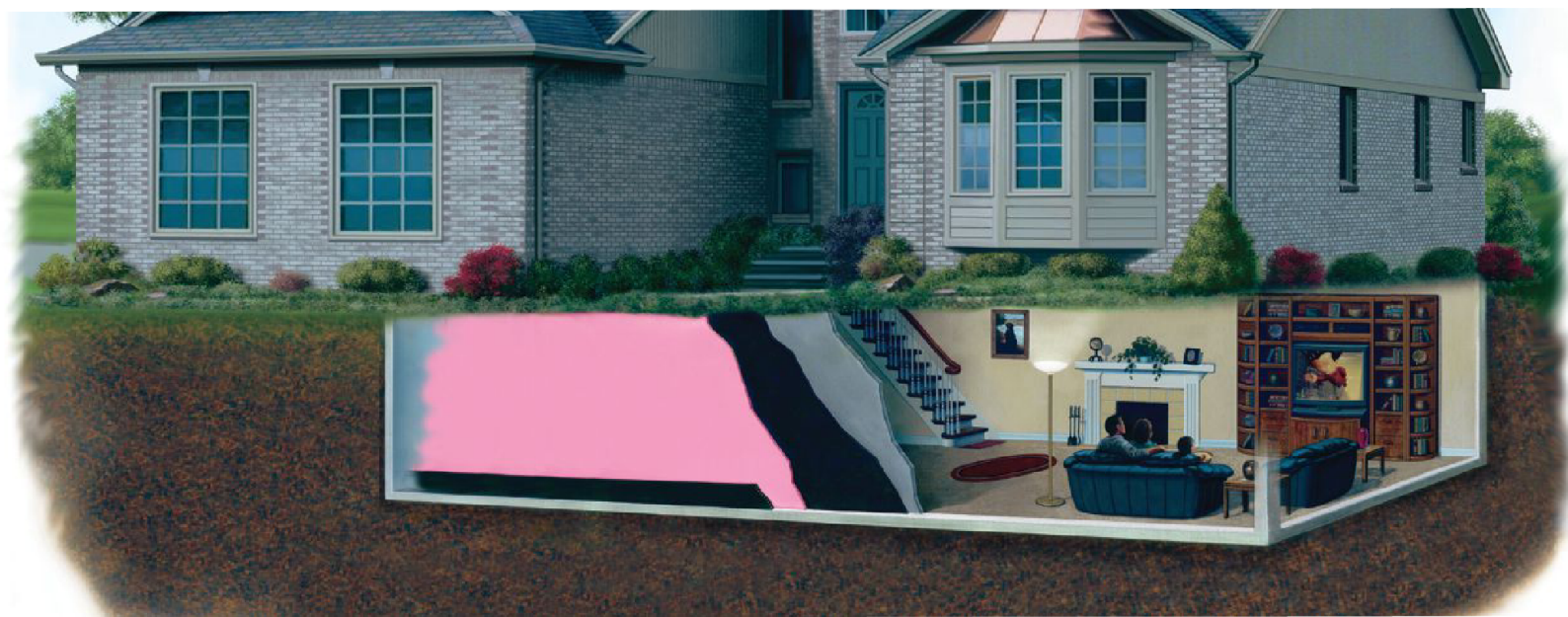
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BUILDERS PICK THE MOST LIKELY FEATURES FOR THE 2014 HOME

Knowing what your competition is doing is a must in any industry. For residential construction, that includes having a clear picture of what other builders are putting in their new homes. A nationwide survey last December asked builders about the features they would include in the typical single-family home this year.

Based on ratings from 1 to 5 (1 being not at all likely and 5 being very likely), builders reported the most likely features for the homes they will build are low-e windows, a master bedroom walk-in closet, a laundry room, and a great room.

Also likely are Energy Star-rated appliances and windows, a programmable thermostat, and insulation higher than required by code. In the kitchen, a double sink, granite countertops, and a central island are highly likely to make the cut. Outdoor features such as a front porch, outdoor lighting, and a patio are probable candidates for a new home. A two-car garage, 9-foot ceilings on the first floor, and a private toilet compartment in the master bathroom are other common features.

In contrast, the least likely features are laminate countertops in the kitchen and an outdoor kitchen (cooking, refrigerator, and sink). Two-story spaces (family room and foyer) also seem to be unlikely features, as are an outdoor fireplace, a sunroom, a media room, and a whirlpool in the master bathroom.

FARM BILL KEEPS RURAL AREAS ELIGIBLE FOR HOUSING FUNDS

President Obama signed a farm bill into law in February that includes a provision championed by the National Association of Home Builders (NAHB), which will help members living and working in rural areas.

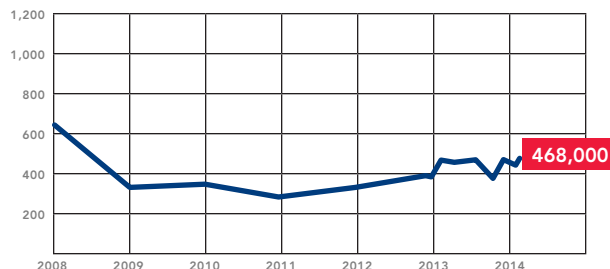
The legislation allows more than 900 communities to retain their status as “rural” areas so residents will have access to housing programs that help low- and very-low income households obtain homeownership or suitable rental housing.

The law does not provide more funding but, by grandfathering these existing rural communities, they will maintain access to the U.S. Department of Agriculture’s rural housing programs.

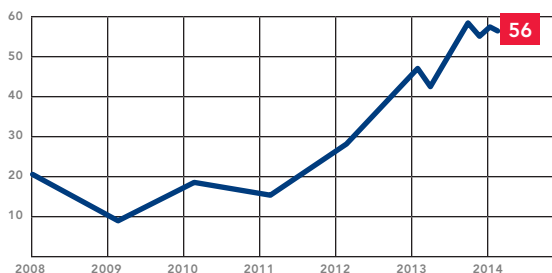
NAHB economists estimate the provision will generate \$1.2 billion more investment this year for rural housing, including construction of new single-family and multifamily homes and remodeling. Breaking this down even further, it means that each of these 900-plus communities will receive on average more than \$1 million in economic activity this year through USDA loans and grants for new construction and remodeling—funding that would have been lost had the law not been passed. **PB**

HOUSING MARKET SNAPSHOT

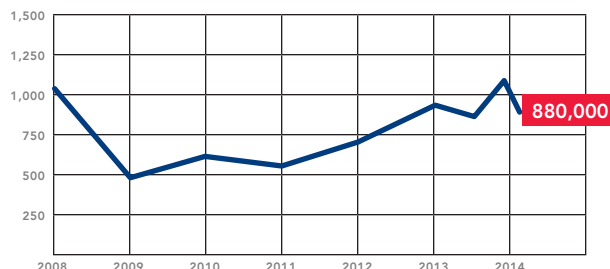
NEW-HOME SALES JUMP



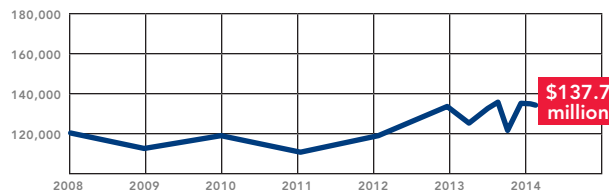
BUILDER CONFIDENCE SLIPS



HOUSING STARTS DECLINE



REMODELING SPENDING DECREASES



January sales of new homes rose 9.6 percent from December to an annualized rate of 468,000 units, but other housing indicators were on the downside. Builder confidence for February slipped one point from the previous month to 56, according to the NAHB/Wells Fargo Housing Market Index. January housing starts decreased 16 percent to an annualized rate of 880,000 and remodeling spending fell 0.4 percent to \$137.7 million.

WINDOW AND DOOR

Builders and architects reveal their top considerations for selecting windows and doors.

By Mike Beirne, Editor

Energy efficiency and price are among the top three considerations when builders choose windows and doors, according to *Professional Builder's* 2014 Windows and Doors survey.

While past surveys showed builders increasingly offered more energy-efficient windows in a bid to differentiate their product, this year's poll showed most homebuyers did not choose to upgrade their window selection. Price could be the barrier or, perhaps, buyers are satisfied with their standard window selection. Another explanation from a Massachusetts builder is that windows are the most misunderstood and undervalued component in a home. "It amazes me that there are so many window brands available with such varying ranges of quality and performance," he wrote. "The misunderstanding and undervaluing is being done by both homeowners and builders because both parties are not interested in the true performance of the window they are purchasing."

Two-thirds of the 223 builders, architects, and designers who responded said the average size of windows is about the same as the window units they specified for homes over the past three years. More than half indicated the number of windows they specify for their new houses (a third of respondents specify 10 to 15 windows for each home followed by 23 percent who average more than 25 units for each house) has not changed during the same period.

More findings about the top considerations for selecting windows and doors are presented in the charts that follow:

METHODOLOGY AND RESPONDENT INFORMATION

This survey was distributed between March 3 and March 14, 2014, to a random sample of *Professional Builder's* print and digital readers. No incentive was offered. By closing date, a total of 223 eligible readers responded. Respondent breakdown by discipline: 35 percent diversified builder/remodeler; 27.3 percent custom home builder; 13.2 percent architect/designer engaged in home building; 6.4 percent production builder; 3.6 percent manufactured, modular, log home, or systems builder; 2.3 percent multifamily; and 12.3 percent other. Almost 67 percent of respondents sold one to five homes in 2013, and 9 percent sold more than 50 homes.

WHICH TYPES OF WINDOWS DO YOU SPECIFY FOR YOUR HOMES?

	All Projects	Some Projects	Do Not Use
Double-hung	20.8%	65.9%	13.2%
Picture/fixed	20%	75.4%	4.6%
Single-hung	19.5%	46.8%	33.7%
Casement	15.5%	75.4%	9.1%
Multi-slide glass door (window wall)	10.7%	56.8%	32.5%
Skylight/clerestory	7.7%	68.2%	24.1%
Glider	7.1%	47.1%	45.8%
Awning	6.9%	64.8%	28.3%
Tilt and/or turn	6.7%	40.7%	52.7%
Arched	5.6%	77.5%	16.8%
Bay	4.4%	65.6%	30%
Bi-fold glass door (window wall)	4.1%	34%	61.9%

BASE: 223; PROFESSIONAL BUILDER 2014 WINDOWS/DOORS SURVEY

Double-hung is the most popular window style, and picture/fixed and single-hung moved ahead of casement windows, which were No. 2 in last year's survey.

WHICH TYPES OF FRAME MATERIAL DO YOU SPECIFY FOR YOUR HOMES?

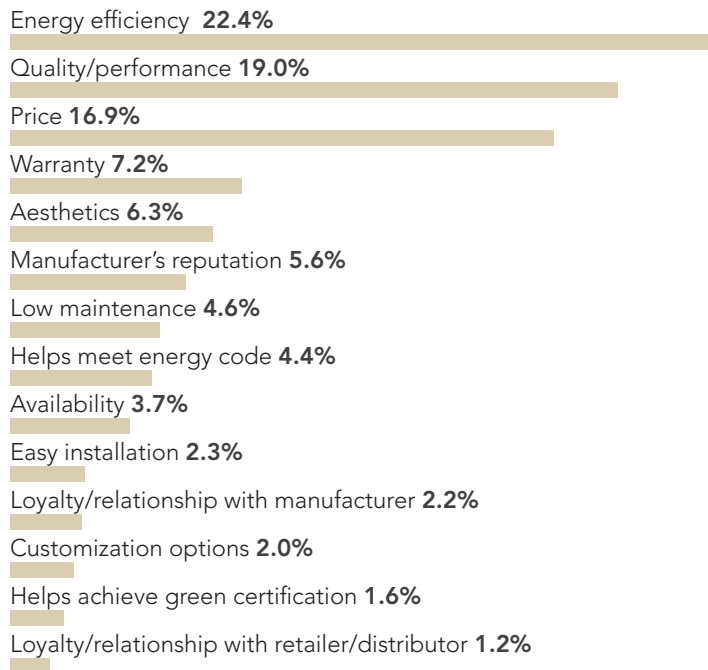
	All Projects	Some Projects	Do Not Use
Vinyl	22.1%	65.8%	12.1%
Wood	16.8%	71.4%	11.9%
Aluminum	11.2%	49.3%	39.5%
Composite	4.2%	49.3%	46.5%
Fiberglass	4.2%	49.3%	46.5%
Steel	2.2%	21.6%	76.1%

BASE: 223; PROFESSIONAL BUILDER 2014 WINDOWS/DOORS SURVEY

Vinyl is the top framing material for windows, while wood still posted strong results due to its superior quality and performance characteristics.

TRENDS

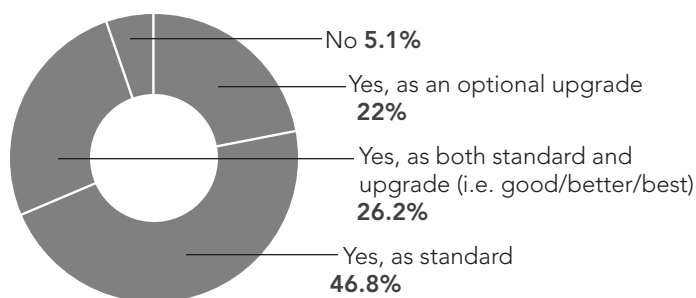
WHAT ARE THE TOP THREE CONSIDERATIONS WHEN SPECIFYING WINDOWS FOR YOUR NEW HOMES?



BASE: 223; PROFESSIONAL BUILDER 2014 WINDOWS/DOORS SURVEY

Energy efficiency, quality, and price are builders' top three considerations for window selection.

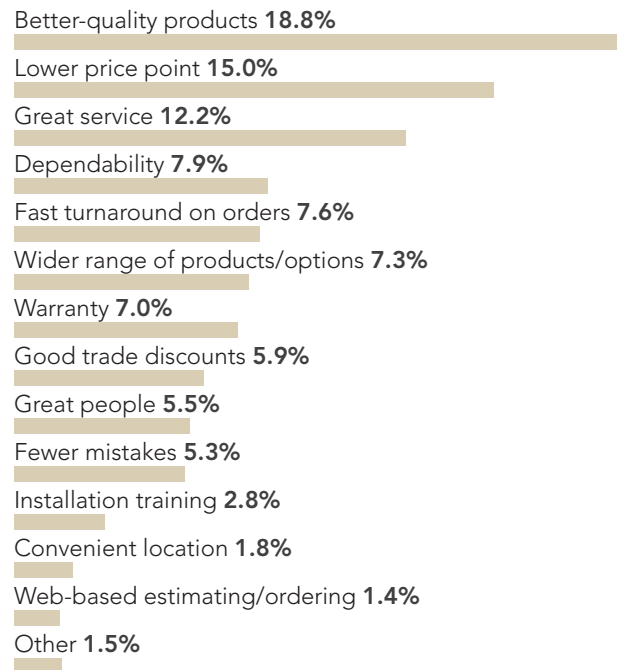
DO YOU OFFER ENERGY-EFFICIENT, HIGH-PERFORMANCE WINDOWS FOR YOUR NEW HOMES?



BASE: 218; PROFESSIONAL BUILDER 2014 WINDOWS/DOORS SURVEY

Seventy-two percent of builders offer energy-efficient/high-performance windows as standard or as standard and upgrade compared with 82 percent in the 2012 survey.

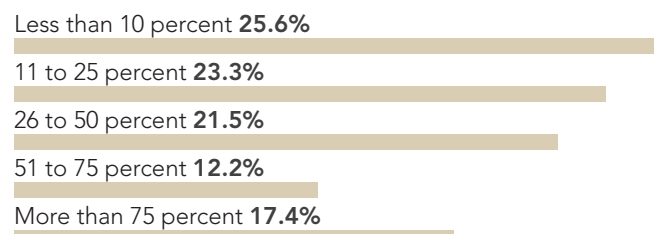
WHAT IS THE BEST WAY FOR A WINDOW SUPPLIER TO GET YOU TO SWITCH YOUR BUSINESS TO THEM?



BASE: 223; PROFESSIONAL BUILDER 2014 WINDOWS/DOORS SURVEY

Quality and service are top considerations, but price makes its way into the top three.

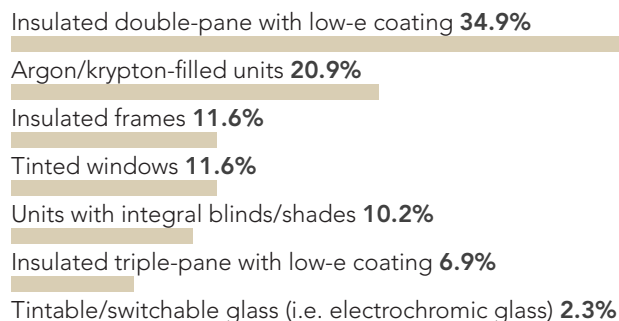
IF YOU OFFER ENERGY-EFFICIENT WINDOWS AS AN OPTIONAL UPGRADE, APPROXIMATELY WHAT PERCENTAGE OF YOUR BUYERS CHOOSE TO UPGRADE THEIR WINDOWS?



BASE: 172; PROFESSIONAL BUILDER 2014 WINDOWS/DOORS SURVEY

Of the 172 builders who offer energy-efficient windows as an optional upgrade, 121 said the majority of their buyers do not choose to upgrade.

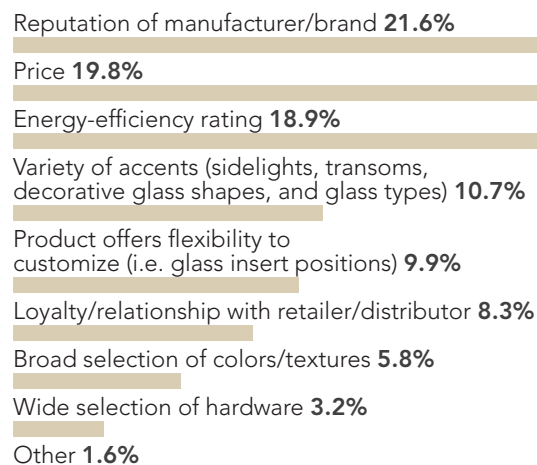
WHICH TYPE OF ENERGY-EFFICIENT WINDOW TECHNOLOGIES HAVE YOU SPECIFIED IN THE PAST 12 MONTHS?



BASE: 223; PROFESSIONAL BUILDER 2014 WINDOWS/DOORS SURVEY

Tinted windows and units with integral blinds/shades moved ahead of triple-pane windows in this year's survey.

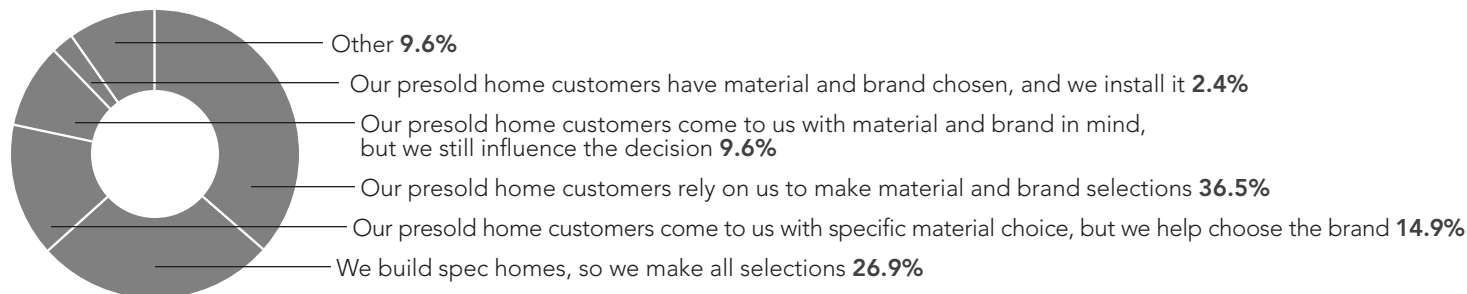
WHAT ARE YOUR TOP CONSIDERATIONS FOR CHOOSING DOOR PRODUCTS?



BASE: 223; PROFESSIONAL BUILDER 2014 WINDOWS/DOORS SURVEY

Manufacturer's reputation matters more for picking doors. That item ranked No. 6 for top window considerations.

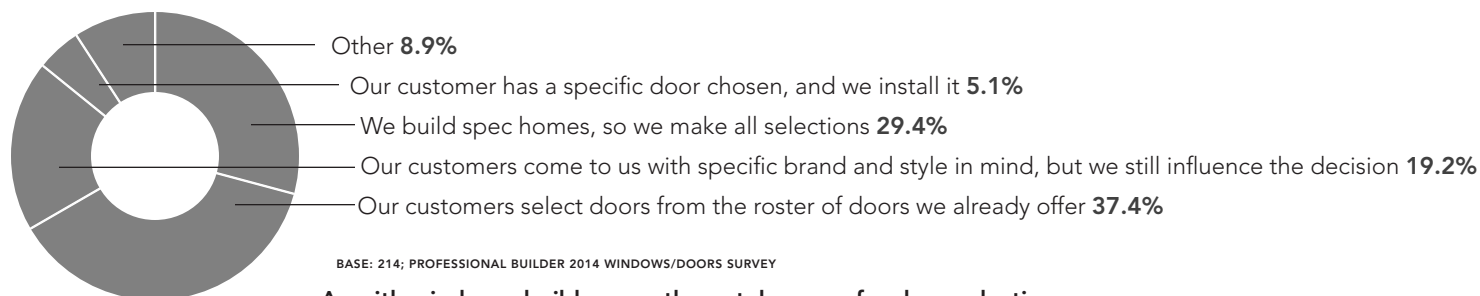
WHICH BEST DESCRIBES THE WAY YOUR WINDOWS ARE SPECIFIED AND CHOSEN FOR MOST OF YOUR PROJECTS?



BASE: 208; PROFESSIONAL BUILDER 2014 WINDOWS/DOORS SURVEY

Builders, not the buyers, are the primary decision-makers for which brand goes into a new house.

WHICH BEST DESCRIBES THE WAY YOUR DOORS ARE SPECIFIED AND CHOSEN FOR MOST OF YOUR PROJECTS?



BASE: 214; PROFESSIONAL BUILDER 2014 WINDOWS/DOORS SURVEY

As with windows, builders are the gatekeepers for door selection.

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Enclosures

+

Outlets

=

40% Savings



Designed for small single home or townhome installations, the 9" enclosure is compact and made with durable PVC materials. It comes with an 8 port phone and 6 port CATV module, suitable for most single homes. Also, ICC has thousands of outlet selections and we offer **free** tools¹ and **free** demo units² for qualifying projects. Most importantly, our structured wiring solutions will save you **40%** or more compared to the big brands. Your choice couldn't be simpler.

For a limited time, ICC Elite Installers³ can get an additional project **discount** from ICC. Give us a call at 888-ASK-4ICC and you will be surprised how much money we can **save** you!

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¹ With 400 jack purchase. ² With a 50-unit enclosure project quote. ³ Visit icc.com/Elite for details.

Preparing for the Main Event



Practice makes perfect, and simulated selling helps your salespeople show what they know.

By Bob Schultz, Contributing Editor



The World Series, Super Bowl, Winter Olympics, March Madness, and the Masters: These are the main events for athletes, stakeholders, and fans. Yet from the hundreds of thousands of people involved in these sports, only an extremely small percentage ever get to experience the thrill of competing at the highest level. Those who do are the most talented and highly trained whose skills have been constantly tested and evaluated against the highest standards. No one is there simply because they love the sport.

In new-home sales, the main event occurs every single time a sales representative interacts with a customer. The stakes are high, and costly. Conversion ratios are the scorecards, and customers are the judges, referees, and scoring officials. There are no mulligans or timeouts here. Preparing salespeople to be capable and ready to perform always at the highest level of effectiveness for each main event is the collective and joint responsibility of everyone who spends company resources on marketing. It is the supreme obligation of everyone in a position of sales management.

As with coaches who direct athletes in the pursuit of championships, here are a few essential tips for sales managers:

1. Have the right players.
2. Create a system to educate through curriculum, train with a purpose, coach with a passion, and evaluate with accountability.
3. Implement consistently, congruently, and constantly, and then do it all over again.

Following the wisdom of the English philosopher Herbert Spencer, who said nearly 100 years ago, “The great aim of education is not knowledge, but action,” here are two specific activities that should form the foundation for any new-home sales training program.

Simulated selling

Formerly known as role playing, most people don’t like simulated selling, which is exactly why they must do it. By doing so,

they are demonstrating conscious competence. In other words when they can show it, they are showing that they know it. Practice makes salespeople better just as a flight simulator does for fighter pilots, controlled scrimmage for football players, and the driving range for golfers.

Two more rules:

1. Never ask a salesperson to role play (simulate) a scenario that you have not taught them already and given them the opportunity to learn and practice.
2. When performing simulated selling exercises, if it is not performed correctly, stop, critique, correct, and coach.

“Please don’t make me role play, it makes me nervous,” is a common and universal response to the concept of role playing, typically followed by, “but you ought to see me with a customer; wow, am I good.” Don’t take them at their word. Instead, hone their skills through role playing.

See-me-with-the-customer evaluations

The performance of athletes in games and competitions is video recorded so they can learn from it. Similarly, the proper use and implementation of video shopping the sales process is the shortest road to developing a highly successful new-home sales team. The results clearly show the appearance or absence of unconscious competence. Two common objections I frequently hear from builders and sales managers about shopping is cost, and I have heard salespeople say they don’t like it or need it. But after spending hundreds of thousands, if not millions of dollars on land, models, decorating, advertising, and other marketing costs, the investment in shopping becomes totally insignificant and will provide high dividends by capturing sales that are now being missed, while marketing dollars are simultaneously being wasted. As for the “I don’t need it” denial, for professional new-home salespeople, these videos are the most important movies they will ever watch. I strongly recommend three mystery video shops per year, per salesperson. This frequency is a minimum level of acceptable evaluation. Take heed of the words of General Norman Schwarzkopf, who said, “When placed in command, take charge.”



Real-world, real-time relevance

Christie Redner, director of sales, Schaeffer Family Homes, West Berlin, N.J., is a practitioner of these strategies and tactics. Redner says the following:

"I have learned through results that consistent involvement with simulated selling exercises and shops with high accountability are critical to the success of my sales team. We take training, accountability, and evaluation very seriously, and I train everyone personally. Every time I do it, I get better. Training all new hires immediately has become part of our culture. Among other things, simulated selling presentations are a constant. We have classroom for a full day, then we do role playing and learning in the field or during a model home demonstration. From that point on, the new hires are sent off to learn, memorize, and show that they are progressing within the timeline we've established. I set up one-on-one or small group training in the sales offices to role play the scripts. The most important thing with this is to stop a salesperson immediately if they are not properly presenting. They use their phone to record themselves practicing, then evaluate, correct, and improve. As Bob says, 'Competence leads to confidence.' Once they know what they are talking about and learn the correct way to ask appropriate questions and more, they now are free to be themselves.

After the salesperson has had a couple of weeks to become comfortable in simulated selling situations, we sit down for the first coaching session of preparing for the main event, which we call the see-me-with-the-customer evaluation. The score sheet is reviewed and the purpose of the mystery shop is explained and discussed. When someone knows that they are going to be shopped, they will do everything in their power to be at their best, which is a display of conscious competence. I give them that push to learn it now rather than later by sending out the shoppers as soon as I feel they are ready. I don't wait too long for fear that they will start learning the wrong way, and changing a bad habit is harder than learning the right way from the beginning. If they know shoppers are out, I promise you that every single prospect that walks

through the door during that time period experiences the best my salesperson can do at that time. After the mystery shop is complete, they watch the video on their own without scoring. Then they watch it again and score, and once more again for good measure, just to listen to it.

As Bob suggests, the difference between the first shop and the second shop is what matters. One of our most significant training successes proves this. We recruited a salesperson from retail, with no new-home or real-estate sales experience. After she completed phase one of our training program, her process was evaluated by a first shop. Expectedly, the score was just okay. Then we moved into phase two. As planned, after a short time, she was ready for her new and improved evaluation process. Her second see-me-with-the-customer evaluation was amazing. Bob said it was one of the very best he had seen in many years. Within their first week, this video is now required viewing for every new hire because it forms the basis for understanding my training objectives. As a manager, trainer, and coach, I evaluate myself on how well my sales team does with their simulated selling exercises, and ultimately on these shops. When they succeed, I succeed. If you have highly coachable, open-minded salespeople, and train and evaluate them appropriately, they will reach high levels of unconscious competence. That is the end goal that I have in mind." **PB**

For more information about video shopping as a training tool, contact Info@newhomespecialist.com and mention "Professional Builder-Video Shops" in the subject line. Christie Redner can be contacted at christie@schaefferhomes.com.

Bob Schultz is president and CEO of Bob Schultz & The New Home Sales Specialists, a management consulting and sales firm based in Boca Raton, Fla. Schultz is the author of two best-selling books, "The Official Handbook for New Home Salespeople" and "Smart Selling Techniques." He can be reached at bob@newhomespecialist.com.

Professional Builder

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KEYNOTE SPEECH:

Look at More: A Proven Approach to Innovation, Growth and Change

Andy Stefanovich, Prophet Inc., Author



Andy Stefanovich is the founder of Opus Event Marketing, acquired by the consulting firm Prophet, where he is now a senior partner. Prophet is a creative

marketing firm focused on product development, branding and positioning and works with companies such as Colgate-Palmolive, American Express, Disney and the U.S. Olympic Committee.

BUILDER KEYNOTE:

H. Lawrence Webb, CEO, The New Home Company



H. Lawrence Webb serves as Chief Executive Officer for The New Home Company. As founder, Larry leads the company's overall vision, strategic planning and policymaking. Between 1995 and 2008, he was CEO of John Laing Homes, where he was instrumental in growing it from a small, two-market company to the second-largest private homebuilder in the U.S.



building customer confidence

Maintaining customer confidence creates a strong foundation for referral sales.

By Charlie Scott, Contributing Editor

Customer-centric home builders know that constructing a high-quality house is not enough in today's competitive industry. These home builders realize that increasing referral sales rates requires high-quality customer relationships, too. The key is to develop a strategic plan designed to nurture the type of relationship that will maintain customer confidence throughout the long and arduous home building process.

Fostering customer confidence, just like building homes, does not happen without such a plan. Most customers begin the process full of confidence. On average, customers shop for nine or more months, compare dozens of homes, and peruse those home builders' websites more than 10 times apiece. When they become confident that a particular home builder's location, product, and price fit their needs, they purchase the home.

From the outset, salespeople who know the value of customer confidence view their role as customer shepherds, in that they guide the customer through the early stages of pre-construction. These salespeople know their top four priorities are to: 1) clearly define the floor plan and specifications, 2) demonstrate the features of the home site, 3) outline what happens next, and 4) instill confidence in the team and company. Eventually, the salesperson

will pass the customer along to the design or construction phase, but the transition can be tricky. In order to avoid the customer experiencing a feeling of being handed off or abandoned, the salesperson should build confidence in the transition by selling the competency of their succeeding teammate(s). In other words, the salesperson is, from the start, creating layers of confidence.

And so it goes, as each team member transitions the customer through the selling, selection, mortgage, construction, and warranty phases. Each professionally handled transition lays another block on the customer's confidence foundation.

If layering these blocks is the foundation of customer confidence, then communication is the mortar that binds the blocks together. Without mortar, block foundations collapse with the first shake, and so too will a customer's confidence without communication. Home building companies that proactively communicate what the customer will experience next, set expectations, and quickly share both good and bad news score significantly higher in overall communications and confidence than builders that only communicate in reactive mode (i.e., waiting for customer questions). And customers who remain confident enjoy their experience more and trust their home building company enough to refer family and friends. While the precise statistical benefits are difficult to peg, our data suggests that home builders that focus on building high-quality homes, customer relationships, and maintaining customer confidence achieve 200-to-300 percent more in referral sales.

While constructing a high-quality home is every builder's goal, adding a strategy to maintain customer confidence may be just the ticket to improve referral sales rates from the industry average of 15 percent to industry top-performer levels of 40-to-50 percent. Clearly, a part of the overall strategy should be to get impartial quantitative and qualitative feedback from your customers as to where their confidence grew and where they lost confidence. Identifying and fixing any customer-confidence slippage will put a company well on its way to higher customer confidence and future referral sales.

Customer confidence is not an accident. It arrives with all new customers, but must be nurtured. Home builders that understand and enhance it will be handsomely rewarded, both professionally and financially. **PB**



top 5 areas of customer confidence gain

1. Clearly describing the home's included versus optional features
2. Teaching the customer what happens next and guiding the customer through a friendly and predictable process
3. Executing a strategy to maintain customer confidence throughout the many stressful transitions that occur (e.g., design studio, mortgage, construction, closing, and warranty)
4. Delivering a clean and complete home; if any open items remain at the time of occupancy, resolve those items immediately
5. Smoothly transitioning the customer into the warranty phase with a completed home and education about the warranty process

top 5 areas of customer confidence loss

1. Periods of more than seven days without a proactive outreach or update from the home building team
2. Reactive communications, i.e., waiting for customer questions
3. Handing off the customer without a personal introduction and confidence-boosting strategy
4. Delivering anything less than a clean and complete home
5. Not staying in touch with the customer post occupancy

Think Tank

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Every Monolith bowl is an elongated, ADA bowl that fits in the same space you use for a traditional toilet.

Monolith fits the same rough-in as any standard toilet.



There is no unsightly gap behind Monolith because it "hugs" the wall.

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Monolith, from Geberit, the company that created the concealed toilet tank 50 years ago.

Monolith is the perfect replacement toilet for your next bathroom remodel.

The Geberit Monolith takes a traditional toilet and raises it to the next level – delivering performance and beauty to your clients. Just review the benefits listed above, and you'll see why offering your clients a Geberit Monolith on your next bathroom remodeling project makes so much sense. Geberit brings Monolith to you, the remodeler – a product that is innovative, durable, and eco-efficient. Remodeling a bathroom? Think Tank: Think Geberit Monolith. Find out more now at your favorite bath showroom or visit →[geberit.us](https://www.geberit.us).



The unique Monolith dual-flush levers are built into the sleek housing.

No one listens anymore.

Somewhere there's trash filled up to the rim.
Because your daughter doesn't listen to you.

Shoes torn to shreds.
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The front door left unlocked.
Because no one listens to you.

Wouldn't it be nice if someone heard you?

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Listens. Learns. Saves.



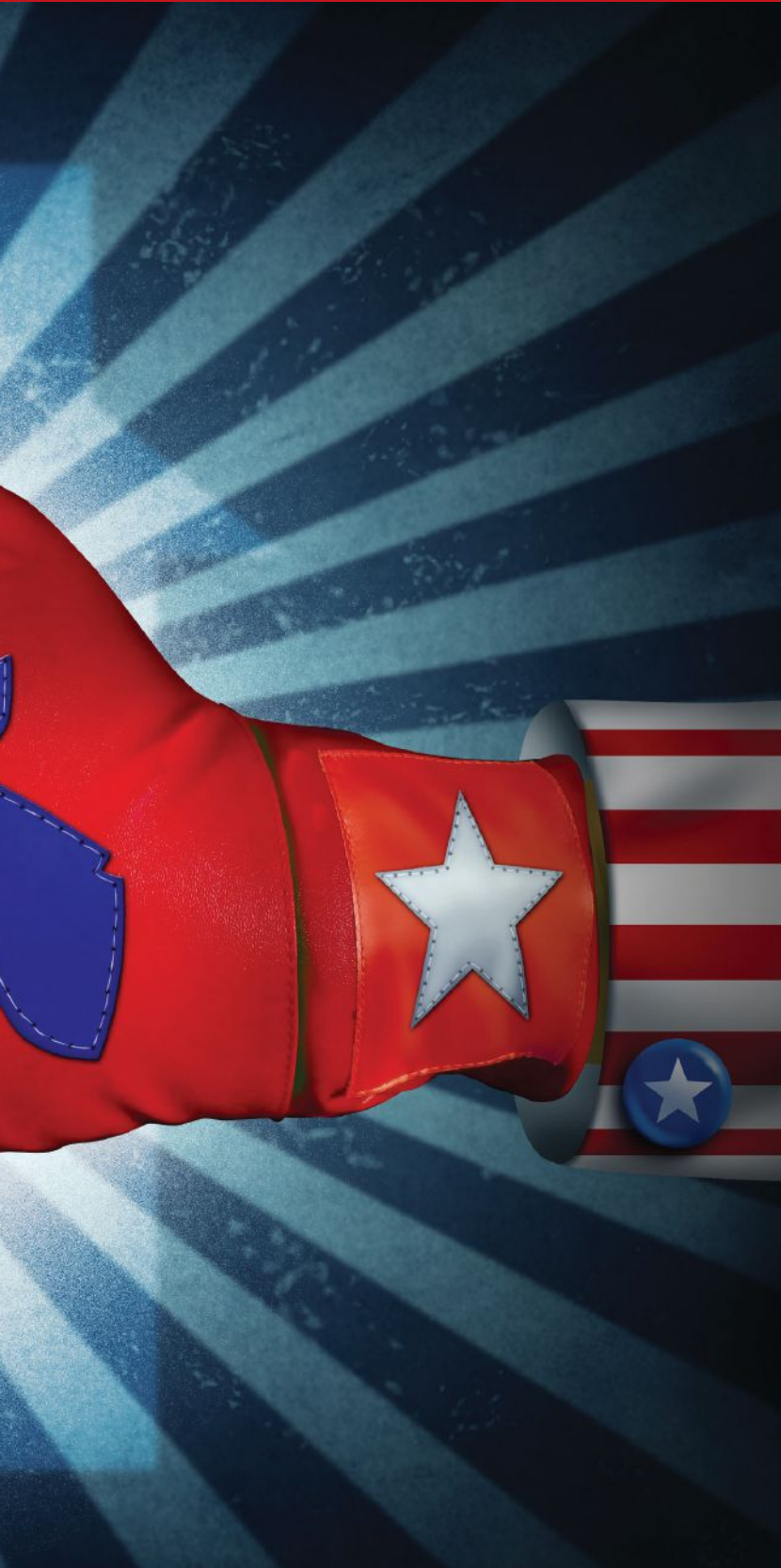
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GETTING BEYOND THE IMPASSE



CAN A DYSFUNCTIONAL CONGRESS
AND A BELEAGUERED WHITE
HOUSE FINALLY AGREE ON TAX AND
HOUSING FINANCE REFORM?

(HINT: PROBABLY NOT THIS YEAR)



By John Caulfield

The U.S. Senate recently rubber-stamped a flood insurance bill the U.S. House of Representatives passed overwhelmingly in March. The bill caps annual premiums under the National Flood Insurance Program—which had been rising by 40 percent or more in some markets—at 18 percent per individual policy. This legislation, for which builder and Realtor groups lobbied hard, proves that under the right circumstances and pressure, Congress will work together to make things happen. “Congress acts when constituencies’ pocketbooks are burning red,” says Joe Ventrone, vice president of regulatory affairs and real estate services for the National Association of Realtors.

But Washington watchers wonder whether the flood insurance agreement was an anomaly, given the enmity between the country’s two political parties. And if that’s the case, what will it take for elected officials to allay their hostilities long enough to reach common ground on three big issues confronting the housing market today:

- Reforming what the Bipartisan Policy Center calls an “outdated” system for financing home purchases and securitizing mortgages;
- Striking the right regulatory balance to protect homebuyers without unduly limiting their access to credit; and
- Simplifying the tax code, which could mean sacrificing incentives that promote homeownership at the altar of debt reduction.

With Congress at war internally and with the White House, compromise would appear to be wishful thinking. And the clock is ticking, with midyear elections in November and the start of the next presidential campaign season just around the corner. The prospect of Republicans controlling both houses of Congress would fundamentally change what “reform” means and which bills could pass muster.

Lobbyists and economists aren’t optimistic about any substantive reform bills emerging from Congress in 2014 or even next year. “These are heavy, multiyear lifts as a matter of course, and the political environment has made any major activity more difficult,” says Bill Killmer, senior vice president of legislative and political affairs for the Mortgage Bankers Association.

Still, Killmer and other industry veterans—having seen this movie before—counsel patience. They note that any major legislation inevitably goes through interminable rounds of Congressional pummeling before enough lawmakers cry uncle. And each proposal becomes a building block for the final version. “Progress is relative, and is ultimately measured by bills that reach the president’s desk for signature,” says Jim



Tobin, NAHB's senior vice president of government affairs.

Of course, the signing of any bill into law is only the starting point for a rollout process that could take years to complete. "It's a long intellectual road and, in most cases, a dead end," says Mark Zandi, chief economist for Moody's Analytics, about crafting and passing big laws. "But you keep going down that road. You can't get a deal until you do the hard work, and these are complex issues—it's our entire economy—so you want to get it right. The debates about these issues are the beauty of our system."

In the following pages, *Professional Builder* takes an in-depth look the current state of housing finance reform, tax reform, and mortgage borrower protections, with an eye toward determining which is nearest to actuality, which is languishing, and what it all means to builders and their customers.

HOUSING FINANCE REFORM

First, let's ask: What's the rush?

Fannie Mae and Freddie Mac have paid back nearly all of the \$187.5 billion that the Treasury Department injected to prop them up during the last recession. These government-sponsored enterprises (GSEs) are profitable again—sort of. So why not just fix the existing system, which is after all supporting nearly two-thirds of single-family and rental-market mortgages?

That kind of magical thinking, coupled with the general paralysis in Washington, may have been what drove Alex Pollock of the American Enterprise Institute to declare in 2014, "The fate of Fannie and Freddie will continue to be debated, but fundamental structuring will once again not be achieved."

"There's no urgency" to reform the GSEs, says Richard Green, director of the USC Lusk Center for Real Estate, who doesn't expect Congress to pass any bill until 2016.

But there's no appetite among lawmakers or the White House for maintaining the status quo, either. "Fannie and Freddie have become toxic, politically," says longtime housing industry veteran Nicolas Retsinas, who currently lectures at Harvard. Michael Stegman, Counselor to the Treasury Secretary, concurs. In comments he made at a JPMorgan conference in March, Stegman acknowledged that conservatorship was "not good for the housing market," and that the lack of GSE reform is an "impediment to growing a vibrant non-agency private-label securitization market."

So the winding down of the GSEs proceeds, as does the shifting of mortgage-related risk away from taxpayers and toward private capital. At issue, then, is what—if any—future role the federal government will play in the secondary market.

"What has emerged in the last few years is a consensus

among many constituencies about what reform ought to look like,” says Eric Belsky, managing director of the Joint Center for Housing Studies. He points specifically to the Bipartisan Policy Center’s February 2013 white paper on housing’s future, which recommended replacing Fannie and Freddie with a Public Guarantor that would provide a catastrophic government guarantee for investors of mortgage-backed securities, similar to the Ginnie Mae model.

“What we did was to start the debate,” says Ed Brady, president of Brady Homes in Bloomington, Ill., who was part of BPC’s housing commission. Groups representing builders, Realtors, and banks continue to push for an explicit federal backstop of investment, which they say is essential to preserving popular lending instruments like the 30-year fixed-rate mortgage, and to attracting private capital into the system.

Killmer believes Congress is closer to GSE reform “than we’ve ever been,” and what’s likely to come out of the Senate would “lay the groundwork for legislation.” Clifford Rossi, a professor at the University of Maryland’s business school, predicted in *American Banker* magazine in February that “meaningful [GSE] reform is finally within reach.”

But don’t go planning any victory parties just yet. Any reform measure that Congress sends to President Obama would need to reconcile at least four different bills and proposals already on the table. “The legislation that will pass has not been written yet,” Brady says.



Jeb Hensarling (R-Texas)

Those proposals include: The Protecting American Taxpayers and Homeowners (PATH) Act, which the House Financial Services Committee passed last

year. PATH’s cold-turkey approach would remove the federal government from the housing finance sector entirely within five years. The committee’s chairman, Jeb Hensarling (R-Texas), frames this bill as giving consumers more choices.



Left to right: John Delaney (D-Md.), John Carney (D-Del.), and Jim Himes (D-Conn.)

In January, three congressmen—John Delaney (D-Md.), John Carney (D-Del.), and Jim Himes (D-Conn.)—proposed winding down Fannie and Freddie in five years and selling them.

Their proposal would maintain a government guarantee by restructuring Ginnie Mae, which currently focuses on providing affordable housing to low- and moderate-income families through a guarantee for mortgage lenders. Private capital would assume the first 5-percent loss on credit risk, and private insurers could share reinsurance risk with Ginnie, with the insurers assuming a minimum of 10 percent.



Left to right: Bob Corker (R-Tenn.) and Mark Warner (D-Va.)

Sens. Bob Corker (R-Tenn.) and Mark Warner (D-Va.) last June introduced the Housing Finance Reform Taxpayer Protection Act, with 10 co-sponsors. Their proposal would wind down the GSEs and their conservator, the Federal Housing Finance Agency (FHFA), in five years and transfer their functions to a newly created Federal Mortgage Insurance Corporation (FMIC), modeled on the FDIC and paid for by consumers through a charge on their mortgages. The corporation would provide catastrophic reinsurance after private-capital losses on credit risk exceeded 10 percent.

Zandi of Moody’s Analytics recently calculated that Corker-Warner would add about \$50 to a homeowner’s monthly mortgage payment, versus \$117 if PATH became law.



Left to right: Tim Johnson (D-S.D.) and Mike Crapo (R-Idaho)

On March 11, the Senate Budget Committee’s co-chairs, Tim Johnson (D-S.D.) and Mike Crapo (R-Idaho), released their own GSE reform package, which mostly mimics Corker-Warner. The agreement—which the White House helped craft—would eliminate Fannie and Freddie and replace them with a government insurer that would step in after private capital lost 10 percent of the loan. Borrowers would be required to put down at least 5 percent. To assuage community banks, the measure would set up a cooperative jointly owned by small

lenders. That co-op would provide a cash bridge for eligible loans while lenders retain servicing rights.

On the day the Committee released its blueprint, common shares of Fannie and Freddie suffered huge price drops.

Kevin Kelly, NAHB's chairman, commended Johnson and Crapo for reaching a bipartisan agreement that would retain a government backstop to ensure 30-year mortgages and keep credit accessible and affordable. "We urge the Senate to move quickly so that housing finance reform legislation can be enacted into law before the midterm elections."

"There's a lot riding on Johnson-Crapo," agrees NAR's Ventrone, in terms of its authors' credibility to marshal enough committee votes to pass a bill that Senate Majority Leader Harry Reid would put before the full Senate for a vote and, in turn, pressure the House to come up with a compromise bill. "At least it would be a starting point for the next round in 2015," says Barry Zigas, director of the Consumer Federation of America.

But these "signs of life" in the Senate "are still a long way from actual legislation," Retsinas cautions. Meanwhile, the "here and now," says Belsky of the Joint Center, is FHFA—which will continue to regulate the GSEs and mitigate taxpayer losses until Congress and the White House decide otherwise.

Observers say there has been a clear change in tone at the agency since the January appointment of former congressman Mel Watt as its director. Pollock of the American Enterprise Institute dismisses Watt as a "cheerleader" for Fannie and Freddie. But others laud his evenhandedness in hiring new staff, as well as the agency's willingness to meet with industry groups to hear their concerns about matters such as tight credit.

Watt, through a spokesperson, declined to be interviewed, and his agency hasn't been too chatty about its plans. But Belsky thinks that builders anxious about GSE reform would be best served by following what FHFA does next.

CONSUMER PROTECTION

Sometime soon, perhaps by late spring, six government agencies working with the Treasury Department are expected to unveil the final definition for what constitutes a Qualified Residential Mortgage (QRM). Following those standards will provide lenders with liability protections and risk-retention waivers, and presumably remove the uncertainty that so many builders and lenders insist is restricting credit for qualified borrowers.

Experts expect that QRM standards will equal the Qualified Mortgage (QM) rules that went into effect on January 10. Lenders that don't meet QRM's standards would have to keep a 5 percent stake in loans. To be exempt from those risk-retention provisions, lenders are responsible for determining the creditworthiness of borrowers based on their ability to repay the loan.

The primary metric is a borrower's debt-to-income ratio, which shouldn't exceed 43 percent. Lenders also can take other factors, such as credit scores and assets, under consideration and still underwrite a mortgage to QRM's rules.

The Consumer Financial Protection Bureau (CFPB), which devised QM, made a major concession to industry pressure last summer when it removed the 20-percent down-payment mandate. The Coalition for Sensible Housing Policy applauded the move and synchronization in general, as "preserv[ing] a role for prudently underwritten loans as part of the new rule." The *Washington Post*, on the other hand, chastised the Bureau for "capitulating" to bankers. And Georgetown University Law School professor Adam Levitin thinks the alignment of QM and QRM is a mistake. "Skin in the game is meant to be a systemic stability regulation, but it has instead been pegged to a consumer protection regulation," he told *Inside Mortgage Finance*.

CFPB director Richard Cordray, through a spokesperson, declined to be interviewed. But in comments he made in January at a Realtors' conference, he emphasized that the agency's ultimate goal is "a world in which mortgage transactions can be expected to turn out successfully for both borrowers and lenders."

Since it launched in 2010, the Bureau has been something of a lightning rod for conservatives and bankers who opposed its formation and expanding authority. In February, the House passed the Consumer Financial Freedom and Washington Accountability Act, which would replace Cordray with a five-person board appointed by the president and confirmed by the Senate. The proposal would make the Bureau, which currently is under the Federal Reserve, a stand-alone entity subject to the Congressional appropriations process and prohibit consumer data collection without individuals' permission.

The Bureau's supporters see this bill as a transparent attempt to defang the CFPB. Its passage "would harm consumers and empower the worst elements of the financial industry," warns Americans for Financial Reform.

Many of the sources contacted for this article generally give the Bureau's performance high marks. Zigas of the Consumer Federation of America thinks the Bureau is doing "a terrific job." And Tobin of NAHB says he's been surprised at how balanced the new rules have been, although he's still waiting to see how the banks implement them. "You need to be careful that the regulatory pendulum doesn't swing too far where banks are afraid to lend."

The conventional wisdom within the housing and mortgage quarters is that the new rules are depriving some creditworthy borrowers from getting a mortgage. These skeptics point to first-time buyers and renters who have a hard time hitting the debt-to-income thresholds. Self-employed borrowers have trouble meeting income-document standards. And what about

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borrowers working on commissions or bonuses who might prefer interest-only loans that don't fall within QM's parameters?

"The bottom line is one size does not fit all," Brady says.

Other observers, though, are less fearful of this new regulatory regime. "We will probably know in the next few months if QM is going to let grass grow in the street; my guess is it won't," says NAR's Ventrone about whether QM will impede mortgage lending. In fact, the new rules have yet to stymie most borrowers' access to credit, including jumbo loans, reports the *Wall Street Journal*. But the Bureau, no doubt, is keeping close watch on the sudden re-emergence of subprime mortgages, which Bloomberg News reports are slowly making a comeback.

TAX REFORM

Housing and mortgage officials couldn't be more blunt in their assessment of the prospects for major tax reform in the next few years.

"It's off the table," Ventrone says. "The Senate is not a willing partner, and neither is the White House," Tobin says. "That's a tougher one," says Brady, the home builder. And "maybe that's a bridge too far," Belsky says.

But Belsky and others note that, absent tweaking the tax code, many of the nearly 50 tax extenders that expired on December 31 could be in jeopardy, some of which directly impact construction and community development.

Sen. Ron Wyden (D-Ore.), who chairs the Senate Finance Committee, told Reuters on March 4 that his committee would start work in April on restoring "a small package of tax breaks," of which he did not specify. But Wyden, who has championed comprehensive tax reform in the past, conceded it would be nearly impossible to cobble together a major bill this year with elections coming up.

Wyden made those comments on the day the Obama Administration released its budget for fiscal year 2015, which begins on October 1. That budget isn't likely to influence Congress much, mainly because it calls for new revenues from taxes that Republicans adamantly oppose. But it does establish President Obama's agenda and how he intends to pay for it.

The president projects \$3.9 trillion in spending and \$3.3 trillion in revenue, with a \$478 billion deficit. The 2015 budget includes \$56 billion in additional discretionary spending for such things as manufacturing institutes, energy efficiency, job training, and early childhood education. His budget also would expand the earned-income tax credit.

To pay for this spending, Obama snips here and there—but no major surgery. He would cap tax-deferred savings on retirement accounts for higher-income Americans, who would also pay more for Medicare benefits. He would curb some subsidies

and raise some user fees. New rules would take aim at preventing corporations from moving profits overseas to dodge taxes.

More intriguing than the White House's budget proposal was the sweeping tax reform plan that House Ways and Means chairman Dave Camp (R-Mich.) released out of the blue in February.

Camp had spent years working on this with his counterpart in the Senate Max Baucus (D-Mont.) When Baucus left Congress in February to become Ambassador to China, Camp lost an ally who might have helped drum up bipartisan support in both chambers.

Some observers see this proposal as Camp's last hurrah before he relinquishes his chairmanship this year due to term limits. Others, though, credit Camp with making a good faith effort to offer something substantive that might appeal to both sides of the aisle. "I think the Camp bill is really good, and I'm a Democrat," says Green of the Lusk Center. "It restores the balance between wages and capital. It's a terrific first step, and I'm not talking about the first of 30 steps."

Martin Sullivan, a *Forbes* contributor, was even more effusive in his praise of Camp's "discussion draft," as it's called, which he says "has changed the tax policy landscape like no other single document in the last three decades."

Camp's 978-page opus, which he and his staff worked on for three years, would reduce the number of income brackets to three from seven. The bill increases the standard deduction to where 95 percent of taxpayers might no longer need to itemize; however, the personal exemption would be history. Households reporting more than \$450,000 in income would pay a 10-percent surcharge. The Earned Income Tax Credit would be converted to an exemption of up to \$4,000 per individual on Social Security and Medicare payroll taxes. And capital gains would be taxed as regular income, although 40 percent of those gains could be excluded for tax purposes. The bill is designed to push more savings into Roth IRAs.

Camp got builders' attention because his bill would cut in half—to \$500,000—the mortgage debt on which homeowners could deduct interest. Banks would face new taxes on lending. And the bill re-engineers the low-income tax credit to throw off more revenue and to encourage investment in low-income housing, which in all likelihood would be rental properties.

Camp's bill has no chance of passing; his own party's leadership mocked it the minute its details went public. But Killmer of the Mortgage Bankers Association has seen evidence in the past of a divided Congress being a "recipe" for tax reform. "Tax reform is going to be ugly," he says, but the Camp bill could become a catalyst "from which momentum flows." And in the short run, suggests NAHB's Tobin, Congress might see merit in that part of Camp's proposal that lowers the corporate tax rate to 25 percent. **PB**



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WORKFORCE WORRIES

By Alison Rice

BUILDERS PRESS FOR IMMIGRATION REFORM, SAYING CHANGE IS ESSENTIAL TO THE FULL RECOVERY OF THE HOUSING INDUSTRY AND THE ECONOMY



Bryson Garbett's split life as a builder and a philanthropist gives him a unique perspective on the issue of immigration reform.

In Utah, where his company—Garbett Homes—closed 350 houses last year, he is feeling the pinch of a tight labor market.

Plumbers, electricians, and HVAC contractors are harder to find, he says. "But it's not just skilled, it's all kinds of labor—packing foundation forms, hanging drywall, landscaping," Garbett says. "In the past, that was being provided by immigrant labor."

Many of those workers were from Mexico, a country that Garbett knows well. He is also the founder of Foundation Escalera, a nonprofit that builds schools in rural Mexican villages and provides scholarships to young Mexican students so they can attend high school. "Mexicans would rather stay in Mexico and work," he says. "They don't want to take the risks involved in crossing the border. They only come here because they are desperate."

The situations he sees both at home in Utah and in Mexico leaves Garbett frustrated with the country's current immigration policies, which he feels are unworkable for businesses and immigrants. "They provide an important part of our economy, especially in construction," he says. "But we make it so difficult for them. Anything would be better than what we have now."

He's not the only one who feels this way. After a bruising recession, builders and their subs are now bracing for the inevitable moment when the recovering demand for new homes will outstrip the limited number of construction workers available.

"We're already bumping into the beginning of it," says Mike Benshoof, chief operating and financial officer for Classic Communities in Harrisburg, Pa., and Red Door Homes, a scattered-site builder in eight states. "It starts with 'I'm not interested in driving that far for a job,' and then you get the price increases. We're hearing 'I'm not interested in driving that far' for jobs that a year ago they would have jumped all over."

Others are already experiencing multiple labor pains. In the Dallas/Fort Worth metro area, labor issues are "limiting the number of houses we can build and inconveniencing our buyers due to delays. The local economy is negatively impacted because consumers are experiencing costs and prices that are being artificially inflated," says Don Dykstra, president of Bloomfield Homes in Southlake, Texas, which hopes to sell 700 homes in 2014. Lastly, "suppliers and contractors that have the capacity to handle additional work are missing out because the

overall market is constrained by not enough available workers in critical trades."

Such shortages are real. In 2007, at the height of the boom, the construction industry employed nearly 8 million people, with an estimated 25 percent of them Hispanic. In early 2014, construction employment is down to fewer than 6 million, and builders worry that many of their former workers—both legal and illegal immigrants—will not be returning to their job sites, leaving them scrambling.

"This is an ongoing issue, because the residential construction workforce and the marketplace of the 1990s and 2000s definitely benefited from immigrant labor," says Doug Bauer, CEO of TRI Pointe Homes in Irvine, Calif., whose firm expects to close 660 homes this year. "But the long recession has really deterred workers from coming back and contractors from growing because they got whacked so hard last time."

IMMIGRANTS ON THE JOB

Visit any new home under construction, and the connection between the housing industry and the immigration issue becomes immediately obvious. Overall, an estimated one-fourth of construction workers are Hispanic; and in some trades, like drywall and concrete, Hispanics represent more than half the workforce, according to The Center for Construction Research and Training (see chart on page 40).

And the housing boom couldn't have happened without them. As builders and subcontractors rapidly scaled up, Hispanic workers occupied roughly 78 percent of the new construction jobs created between 2000 and 2007, according to the Center.

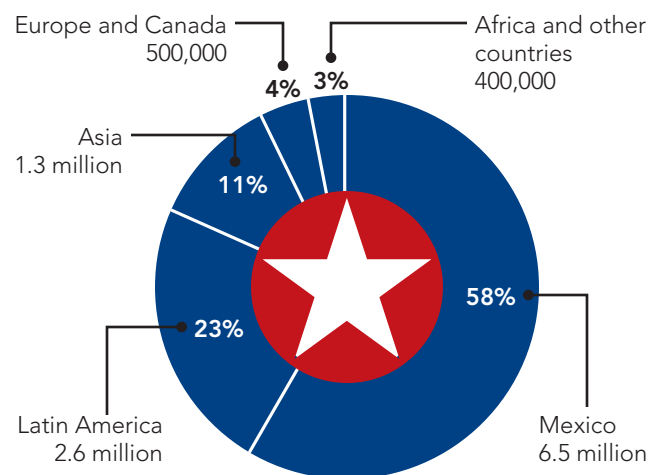
However, many of them were working illegally. Precise numbers are difficult to find given the reality of undocumented immigrant life, but researchers believe there are an estimated 8 million unauthorized workers in the United States, which represents 5.2 percent of the U.S. workforce. Numbers from the Pew Hispanic Center also suggest that many are Hispanic: People from Mexico and Latin America add up to 9.1 million of the country's 11.2 million undocumented immigrants. Within the housing industry, as many as 22 percent of workers are unauthorized, according to HousingEconomics.com.

But as housing jobs vanished, so did many of these workers.

They moved, escaping unemployment and anti-immigrant sentiment in places like Arizona, Alabama, and

ILLEGAL IMMIGRANTS IN AMERICA

There are an estimated 11.2 million illegal immigrants in the United States, where they make up 3.7 percent of the country's population. Total: 11.2 million (99 percent*)



*TOTAL MAY NOT ADD UP TO 100% BECAUSE OF ROUNDING.
SOURCE: PEW HISPANIC CENTER (WWW.PEWHISPANIC.ORG)

MISSING PAPERS

There are more than 8 million unauthorized immigrant workers—or 5.2 percent of the U.S.'s 155-million-person workforce—in the country, according to the Pew Hispanic Center. Here are the states with the highest share of such workers on the job, based on 2010 data.

STATE	UNAUTHORIZED IMMIGRANT WORKERS*	SHARE OF STATE WORKFORCE
Nevada	140,000	10%
California	1.85 million	9.7%
Texas	1.1 million	9.0%
New Jersey	400,000	8.6%
Arizona	230,000	7.4%

*ESTIMATED. SOURCE: PEW HISPANIC CENTER (WWW.PEWHISPANIC.ORG)

elsewhere to chase jobs in the roaring world of oil and gas exploration in Texas and North Dakota, among others. In places like Bismarck, N.D., "It's hard to get trades," Benshoof says. "Oil company trucks will drive up and say, 'Who wants to make six figures on an oil rig?' Workers will literally drop their tools and walk off the job site."

★ STALLED REFORM

One solution to builders' labor woes? Comprehensive, federal immigration reform, which could support the economy by improving the size and stability of the construction workforce.

Policy changes at the federal level would also eliminate the confusing patchwork of state and local laws governing immigrants in recent years. In Arizona, where undocumented workers represent 7.4 percent of the state's workforce (the fifth-highest share in the nation), voters in 2010 passed a controversial law that requires law enforcement to check the immigration status of everyone they stop, hold, or arrest; noncitizens must also have their immigration papers with them at all times.

Arizona isn't alone in tackling the issue of illegal immigrants. Since 2010, more than a dozen other states have adopted or explored similar laws. "The fact that states and localities have been trying to take up immigration on their own proves the point that this is a federal issue that needs to be addressed in comprehensive ways," says Catherine Singley Harvey, manager of the Economic Policy Project at the National Council of La Raza, a Washington, D.C.-based organization that advocates for Hispanics' civil rights.

Last year, a bipartisan group of eight U.S. senators tried to do just that. Known as the Gang of Eight, they developed a comprehensive immigration bill that included a number of reforms, such as a path to citizenship for undocumented immigrants already in the country, a better employment verification system, and an expanded guest worker program for low-skill workers such as construction laborers.

But their efforts stalled, thanks to political gridlock in Washington. "Unfortunately, what this country needs is real leadership," says Bauer, who is exasperated by the lack of action on both immigration and budget reform.

Unfortunately, builders such as Bauer will probably remain frustrated for months to come.

While NAHB chief lobbyist Jim Tobin says he has seen "movement" on the issue of immigration reform in the U.S. House of Representatives, he doesn't anticipate any votable bill to emerge until 2015 or even 2016, when the next presidential election is held. "But this issue is not going away either," he

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HISPANICS IN CONSTRUCTION

As housing boomed, so did the number of Hispanics on the job. According to The Center for Construction Research and Training, 78 percent of new construction jobs created between 2000 and 2007 went to Hispanic workers.

YEAR	PERCENTAGE OF CONSTRUCTION WORKFORCE THAT IS HISPANIC
2000	15%
2005	23%
2007*	25%
2010	24%

*HISTORIC PEAK OF NUMBER OF HISPANICS WORKING IN CONSTRUCTION. SOURCE: THE CENTER FOR CONSTRUCTION RESEARCH AND TRAINING (WWW.CPWR.ORG)

TOP 10 CONSTRUCTION JOBS FOR HISPANIC WORKERS

Many trades have large numbers of Hispanic workers on the job.

TRADE	PERCENTAGE* OF WORKFORCE THAT IS HISPANIC
Drywall	56%
Concrete	55%
Helper	48%
Roofer	47%
Laborer	45%
Carpet and tile	43%
Painter	42%
Brickmason	36%
Welder	26%
Carpenter	24%

*AVERAGE BASED ON 2008-2010 DATA. SOURCE: THE CENTER FOR CONSTRUCTION RESEARCH AND TRAINING (WWW.CPWR.COM)

says. "Labor shortages are becoming more widespread across the country, and the construction industry needs to be able to tap into this employment market."

★ BE OUR GUEST?

In the absence of full-fledged immigration reform, many builders are willing to settle for a guest worker program, which would provide a more steady, legal, and affordable source of labor.

"A guest worker program would be a great benefit to the industry because it would get people back into the trades and allow them to learn and be compensated for it," says TRI Pointe's Bauer. "I think it would improve both quality and quantity because you'll be able to find good workers with the ability to be trained."

The catch though, at least for builders, would be the number of workers allowed. Under the bipartisan immigration reform proposal introduced in 2013, the construction industry would have been granted 6,600 guest worker visas in the first year and up to 15,000 visas in later years.

Andy Warren, president of Maracay Homes in Phoenix, criticized those figures as unworkable in a newspaper interview in November 2013. "Fifteen-thousand guest workers for the nation's growing construction industry is ridiculous," Warren told *The Arizona Republic*. "That's not enough workers to handle the building needs for one state, let alone a country."

The NAHB agrees, advocating for a "market-based visa system" that would be more responsive to the housing market and builders' labor needs.

Not everyone is convinced. According to La Raza's Harvey, guest worker programs can be problematic because they create a group of "second-class citizens who are denied the rights of other workers." To avoid that scenario, Harvey says such programs must include safeguards which protect visa holders from exploitation. "Temporary workers need to have the same rights as other workers, the opportunity to earn citizenship, and the visas need to be portable from employer to employer so that the visa does not tie a worker to an abusive employer," she says.

Some builders have reservations, too. "It would really depend on what the legislation looks like," Benshoof says. "With every well-intentioned change—even if it is perfect reform—there are always unintended consequences."

Others believe that's a risk worth taking. "Immigration in the past is something that the United States has done better than anybody," Garbett says. "Building a wall [to prevent illegal immigrants from crossing the border] and thinking that will solve our problems? That's crazy. What a waste of money." **PB**



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[OUTDOOR LIVING]

OUTSTANDING OUTDOOR SPACES



By Susan Bady, Senior Contributing Editor

Homebuyers not only value outdoor living space, they have come to expect it. These outdoor environments run the gamut from modest to lavish.

It used to be that unless they were building luxury homes, production home builders typically didn't do much with the outdoor space. There might be a patio here and a deck there and some landscaping in the front yard. Now, even in moderately priced homes, builders are integrating formerly underutilized outdoor space into the rest of the floor plan.

"They're integrated into the footprint of the house, which affords them a bit of privacy, and they're covered for protection from the elements," says Jerry Gloss, principal of KGA Studio Architects, Louisville, Colo. "You can't do decks anymore that are supported by 4-by-4 posts and look like they're glued to the back of the house." Gloss says every design produced by his office includes an outdoor space.

In addition to landscaping, hardscaping, and water features, outdoor spaces can be dressed up with everything from fire pits and barbecue grills to full kitchens, flat-screen TVs, and fireplaces. Don Gwiz, principal of landscape design/build firm Lewis Aquatech, Chantilly, Va., says his affluent clients are showing a lot of interest in pizza ovens and smokers.

The extent to which outdoor spaces are accessorized obviously depends on the price of the house. The point is that such spaces can't look as if they were tacked on. And because the outdoor environment is the first impression visitors get, "We have to take that element and make it as creative and elegant, architecturally, as the home," Gwiz says. About 80 percent of Lewis Aquatech's business is in the Washington, D.C., area and involves high-end custom homes. The company acts as the landscape architect and space planner for each project and is either the builder or construction manager.

Epic Development focuses on infill sites in established neighborhoods near Atlanta. "We build a number of homes that are \$1 million plus," says Jim LaVallee, one of the principals. "Those get a lot more attention to the outdoor space. But for \$300,000-to-\$400,000 houses, we'll do screened porches and patios and landscaping. The spaces may be smaller and incorporate fewer materials, but it's still a nice design."

A landscape architect designs the outdoor plan based on parameters provided by Epic. After the first or second round of design changes, the landscape contractor helps the rest of the team brainstorm plant selections. "Then we get the masons involved with hardscaping," LaVallee says.

BUDGETS AND DREAMS: A DELICATE BALANCE

Gwiz says the challenge with Lewis Aquatech's projects has less to do with site constraints than it does with budgets. "The

The Classic Orinda Ranch at Wilder in Orinda, Calif., celebrates the al fresco lifestyle with not one but several outdoor spaces, including the fire pit in the foreground. Lower-level rooms access the loggia, which overlooks the lawn and has a kitchen and dining area.

BUILDER: BROOKS STREET BUILDERS; ARCHITECT: ROBERT HIDEY, AIA; PHOTO: TOBY PONNAY PHOTOGRAPHY

[OUTDOOR LIVING]

Small spaces can have a lot of impact. This Atlanta home has a covered sitting area with a flagstone floor and curtains that can be drawn for privacy. The adjacent cooking and dining area has an aggregate concrete surface.



BUILDER/DESIGNER: EPIC DEVELOPMENT;
PHOTO: BRIAN GASSEL PHOTOGRAPHY



BUILDER: EPIC DEVELOPMENT; LANDSCAPE DESIGNER: HEATHER MOLL-DUNN;
PHOTO: EPIC DEVELOPMENT

A fireplace and waterfall were designed to be visible from the home's main living area and permit views of the yard behind them. The fireplace was hand-built of concrete block with a veneer of natural stone.



BUILDER: WOODSIDE HOMES; ARCHITECTS: CAROL LAVENDER AND MICHAEL PITTENGER; PHOTO: WOODSIDE HOMES

A model home at Valencia Park in San Antonio, Texas, has a covered outdoor porch with a fireplace, dining and seating areas, and a built-in kitchen. The 3,400-square-foot home starts at \$422,339.



Large, fixed screen panels were used to enclose this porch. The brick fireplace wall offers privacy and blocks a less-than-desirable view of construction on the adjacent lot.

BUILDER: EPIC DEVELOPMENT;
ARCHITECT: ERIC RAWLINGS, AIA; RAWLINGS DESIGN;
PHOTO: BRIAN GASSEL PHOTOGRAPHY

challenge is how to make [the end result] elegant and beautiful and in keeping with the architecture of the home without going over budget," he says.

Lewis Aquatech educates clients about the portions of the project that will have the most impact, and gives advice on how to build it in phases for the maximum effect. They may, for instance, postpone construction of the swimming pool until phase two, or wait a year before installing upgraded landscaping and lighting.

"When you do that, you become the steward of the budget. The phased approach gets implemented much faster once the homeowner sees [the work getting done], and it starts coming together," Gwiz says.

Site conditions, such as grading and drainage, all have to be factored into the budget. Epic Development must figure out how to retain water on each lot and control the flow from their site to the neighbor's. Being an infill builder, Epic also has to deal with mature trees. "If a tree is 7 inches or more

in diameter, it can't be removed; we have to work around it," LaVallee says. "Then there's the shade canopy. We cannot impact the critical roots under that tree."

EVERY PROBLEM HAS A SOLUTION

Such constraints, though, are not insurmountable. Landscape designer Claudia Schmutzler of Windsor Decks & Gardens in Corona del Mar and Santa Rosa, Calif., has created attractive backyards out of spaces that were flood prone or limited in size.

For one home in Newport Coast, Calif., Schmutzler overcame topographical challenges to transform a bland front entry into an eye-catching passageway. "The space was only about 12 feet by 12 feet, with a concrete, curved wall and a palm tree in a planter which just took up room," she says. Schmutzler removed the palm tree and saw-cut a foot around in order to plant a privacy hedge. She also removed the concrete wall, which was so tall it blocked the home's ocean view

[OUTDOOR LIVING]

Problem: A cramped, 12-by-12-foot entry patio in Newport Coast, Calif., surrounded by a concrete wall that blocked the ocean view. **Solution:** Windsor Decks & Gardens expanded the existing space, replaced the concrete wall with a glass wall facing the ocean, and designed a floating wall of windows with a gate.



PHOTO: CLAUDIA SCHMUTZLER



LANDSCAPE ARCHITECT/CONTRACTOR: LEWIS AQUATECH.
PHOTO: HOA CHLANDER DAVIS PHOTOGRAPHY, LLC

This opulent swimming pool and cabana are on the grounds of a high-end private residence in Potomac, Md.



This home in Aurora, Colo., has a screened porch that's almost like a great room with its kitchen, dining area, and sitting area. "[The screened porch is] something I always wanted to do in Colorado because of the mosquitoes," says architect Jerry Gloss. The screens have a fine mesh that renders them practically invisible. Center-meeting, sliding glass doors integrate the indoor and outdoor spaces.

BUILDER: VILLAGE HOMES OF COLORADO; ARCHITECT: JERRY GLOSS, AIA, CAASH, KGA STUDIO ARCHITECTS;
PHOTOS: JEFF SCROGGINS PHOTOGRAPHY

and dropped off into a steep, 45-degree slope.

Schmutzler built a 12-foot-high retaining wall and extended the existing space to make room for a table and chairs. A glass wall with railings took the place of the concrete wall, permitting unobstructed views. A floating wall of windows

and a new entry gate complete the picture.

LaVallee actually prefers small yards to large ones that require larger trees, more planting beds, and more patio space. "Your budget drastically increases with large properties," he says. "Small yards can deliver a big bang for the buck." **PB**

7 TIPS FOR A SUCCESSFUL OUTDOOR PROJECT

- Listen to clients and pay attention to their needs, but keep their eyes on the prize. Claudia Schmutzler of Windsor Gardens & Decks, Santa Rosa, Calif., tells her clients, "Let's create something that draws you out from the inside."
- Use premium materials. Schmutzler advocates redwood for decks because it's not only beautiful, but offers greater longevity and resistance to termites and other insects. The adage "You get what you pay for" definitely applies.
- If the project cost exceeds the client's budget, suggest completing it in stages. "Don't design and build something that dumps down the property," says Don Gwiz of Lewis Aquatech, a landscape design/build firm in Chantilly, Va. "It's better to phase the site work and plant bigger trees later when the budget and the client's discretionary income allow it."
- Integrate the outdoor space with at least two walls of the home so that it looks like part of the structure.
- Consider less expensive alternatives that still create an upscale look. "You can tint and stamp a poured-concrete patio for a fraction of the cost of using real pavers," says Rick Bennett of Epic Development, Atlanta. Synthetic stone is another less costly option that looks amazingly realistic and comes already formed and ready to put in place. On sloping sites, dry-pack walls (called keystone walls) offer significant savings over hand-built, concrete retaining walls faced with stone.
- Consult your landscape architect or contractor about using more reasonably priced plantings. "I choose plants that are readily available in local nurseries and hence less expensive, but use them in creative ways that make them seem atypical," says Atlanta landscape designer Heather Moll-Dunn. "I recommend that several key plants be larger to make the landscape seem less 'brand new' and give the illusion of age."
- Bring the masonry and landscape contractors into project planning meetings early in the game and negotiate a larger scope of work. "For instance, if you already have a vendor that's putting brick or stone on the front of the house, they can probably do pavers, patios, and stone walls," Bennett says. Buying landscaping and hardscaping for front and backyards in volume will net you a much better price on labor.



PHOTOS: CLAUDIA SCHMUTZLER

Windsor Decks & Gardens turned an overgrown garden into a gourmet cook's dream at this Irvine, Calif., home. The redwood deck unifies the kitchen, wet bar, fire pit, and various seating areas. Lighting is integrated into the deck posts.



By Scott Sedam, Contributing Editor



Take an objective view of home building, compare it to other industries, and you'll find remarkable differences. Some differences spell opportunity, such as relatively low barriers to entry. Compare home building's barriers to farming, where buying just a small spread

of 50 acres and some decent equipment is cost-prohibitive for most. Other differences make the business fun, such as the ability to actually build and sell a high-dollar product of your own design. Try that with cars or any manufactured product, even one as simple as a hair dryer. Many of home building's differences, however, inject extreme variability in both process and product leading to what often appears to be barely controlled chaos. After 25 years in the business and getting to know a couple of hundred builders in five countries, it is clear that builders who learn to control that chaos find the greatest success.

Home builders, of course, rarely build anything. Instead they finance, identify resources, design, contract, coordinate, schedule, sell, and service homes—but they do not physically build them. More than 95 percent of the people who work for builders do not labor for them as employees and, more than that, they often work for competitors. On any given house, a builder will engage a minimum of 500 people from 35 companies, and that can grow to over a thousand people from 50 or more firms. During construction, the work is done

outside in sun, wind, rain, and snow with virtually none of the common comforts found in a traditional manufacturing environment. Add to this scenario a bevy of codes and their often inconsistent interpretation by inspectors. Finally, in no other business do you find customers so directly connected to the product during production, and we all know the chaos they can produce—if you let them.

Dr. W. Edwards Deming was known for many profound observations about manufacturing processes and management, but none is more simple yet poignant than this: "Uncontrolled variation is the enemy of quality." Neither Deming nor anyone else would suggest for a moment that you cannot have variation in plans and product; but to the degree you fail to control it and provide coping mechanisms for what you cannot control, then quality, customer satisfaction, and profit all suffer. There are many, many targets in home building where we can reduce the variation that leads to complexity and to chaos. Use this list of 10 opportunity targets to start your own, and I encourage you to share any others you devise that reduce chaos in your own organization.

1. reduce employee turnover

Most of what we read about employee turnover emphasizes the cost of replacement, often cited as three-to-four times the annual income of any trained, experienced person you lose. That includes the cost for recruiting, retraining, and getting

the chaos

SECRETS OF THE SUCCESSFUL BUILDER

Complexity is inherent to home building, but you must manage it or it will manage you.

someone up to speed. But replacement costs are not the biggest problem. The real issue is losing the rhythm of production, called “Takt” time in classic Lean. With turnover in your staff, you lose a smooth-running organization, which results in continual static in the system, inefficiency, and induced variation as you start, stop, restart, over and over the myriad small processes that make up the larger system. The analogy of not firing on all cylinders is apt, and a larger burden then falls to those who are firing, to keep the machine going. Everyone is stressed and chaos increases.

2. reduce the absolute number of suppliers and trades

Each supplier and trade beyond the absolute minimum required places additional burden on the system in administration, bookkeeping, data entry, and data processing, just for starters. Simply keeping up with phone numbers, addresses, Federal Tax ID numbers, W-9s, and checks is a nightmare. Construction and purchasing must learn the strengths, weaknesses, and idiosyncrasies of too many companies. Which is most timely? Which has the best crews, and what are their names? How about the crews you never want to see on your site again? As described in the introduction, you already utilize a minimum of 35 companies and 500 people to build your houses. Are you sure you want to add another ring to that circus?

3. reduce turnover in suppliers and trades

Now that you have minimized the absolute number of suppliers you need, reduce the turnover in those you have. This task is even harder than reducing turnover among your own employees because you have less control. With your own people you can supervise, train them directly, and try to insulate the rest of the company until they get up to speed. You can institute internal workarounds on an interim basis or throw more bodies at it for a time. With suppliers and trades, that is much more difficult. On the surface you see the schedule slowing down, production loss, and a lot of chatter in the system. Look closer and you observe extra trips to the sites, ballooning cell phone minutes, quality measures suffering, customer satisfaction slippage, and your field people working late and coming in on weekends to keep up.

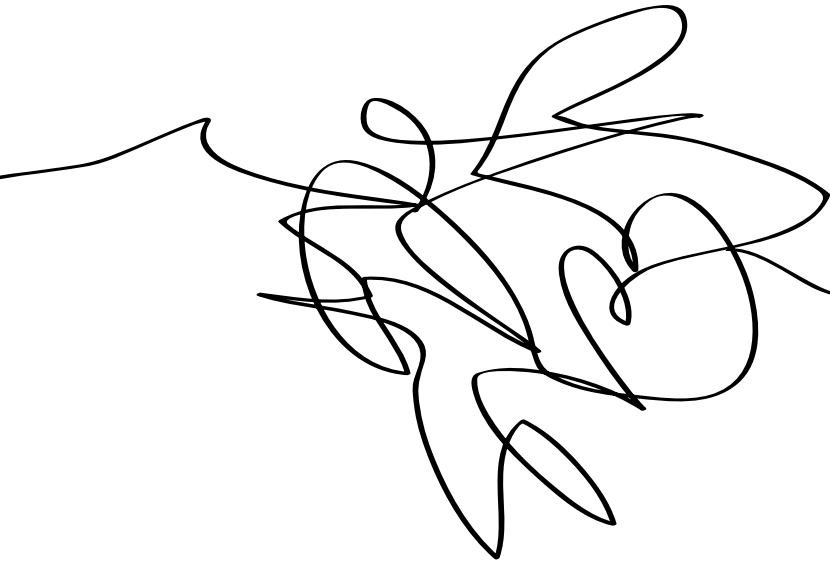
4. simplification in plans, elevations, and options

The subject of simplification in opportunities No. 4 and No. 5 deserve their own article, or perhaps a book. Whether you build starter homes or multi-million-dollar mansions does not matter. Each day you should wake up with a goal to simplify something—anything—about the product or process. Do you really want to festoon that elevation with 32 corbels at \$35 each? Is it a good idea to load your model with designer

"Chaos was the law of nature;

Order was the dream of man."

Henry Adams



options, especially those that customers cannot afford? Do you need an entire book of handrail choices for mid-priced homes as did one builder I visited last year? Do customers want 27 front-door choices on a townhome as I saw with another builder? Why do you have so many VPOs, and why do you need three levels of sign-off to approve them? How many elevations do you need to sell that plan, and how many models are sufficient? Get in the habit of challenging everything you do inside the office, at the sales office, and especially in the design center. No notions or assumptions allowed.

5. simplification in construction

In No. 4, we are talking primarily about how chaos impacts everything off the building site. Here we confront the impact on daily field operations. Never forget that variation increases the complexity in a system exponentially, not arithmetically. Double the plans and you increase complexity at the square, or four times. The same goes for elevations, options, communities, suppliers, and trades. Complexity breeds chaos. Can your field managers really get in each house, each day? We could list examples all day long, but more instructive here is to ask you to stop and consider the impact on daily field operations by this complexity, especially the schedule.

6. fully detailed, lean-engineered plans

I have published multiple articles on this one, and it is a constant topic of mine and my colleague Todd Hallett from TK Design and Associates. I have walked more than 500 housing sites the past seven-plus years doing lean implementation and collected literally thousands of pictures of the very

expensive consequences of not having great plans. In the LeanPlan Workout process we run that involves 20 or more suppliers and trades, it is common to identify more than 100 specific improvements to a plan that the builder thought was thoroughly vetted for waste. We never see less than 50. The notion that builders won't pay for detailed plans and working drawings because they are unnecessary or too expensive is beyond penny-wise and pound-foolish. There is no greater source of home building chaos than inadequate plans.

7. implement unit costing

If you want to bring sanity to bidding and options, determine the cost of everything up front. Get agreement from suppliers and trades for the next year and offer only options and selections with established cost, or a price so simple to figure that anyone can do it without phone calls, drawings, and approvals. Yes, getting unit costing started is a ton of work. Yet the induced variation from not having plans, elevations, options, and selections determined, and costed and priced in the design center, leads not simply to chaos but to something nearer to brain damage. Your only other option is a completely set, very simple product with extremely limited options. There is a niche for that product, but a small one. Meanwhile, the rest of you have work to do.

8. reduce cycle times

The typical U.S. builder requires 150 to 180 days to complete a house, despite what the paper schedule says. A reasonably good builder might consistently average 120 days. Really strong builders hit the 90-day mark with consistency while the truly great ones get it done in 60. For the 95 percent of you over the 90-day build time mark, there is nothing that will do more to improve your company and enhance profit because to be excellent at scheduling, you have to be great at so many other aspects of the business. If you need proof, email me with the words "Saved Day Calculator" for an Excel template

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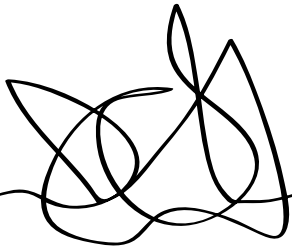
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“Uncontrolled variation is the enemy of quality.”

Dr. W. Edwards Deming

that calculates schedule impact in a way that is inarguable. Yet that calculation—usually three-to-five times in dollars more than builders believe it is—does not account for the additional cost associated with variation. The problem is work-in-progress units stacking up on top of each other. You want to build 120 houses this year? Lay those houses out for a year on your 120-, 150-, or 180-day real schedule and see how the units stack up to get them in. Now run it at 90 days. Now 60 days. See the stacks go away? Which do you think is easier to manage? Which will produce better quality? Remember that chaos increases exponentially with complexity and variation. Would not the reverse be true? Ponder the implications and by tomorrow you will be working on cycle times at full bore.

9. optimize units per supervisor

How many units can the average experienced site supervisor manage in a year? Did you immediately ask, “What’s the cycle time?” Without knowledge of cycle time it’s an impossible question. There are innumerable variables such as the number of communities, if there are assistant superintendents, is there front-end/back-end separation, do they pull their own permits, do they perform customer walks and schedule warranty? There is no simple formula for this except to consider your building process, take all variables into account, modify as needed for experience and housing type, then manage to it. Don’t just let it happen, or let the number wander, as we often see. The moment a site supervisor tries to manage beyond his capacity, errors and oversights creep in, complexity starts to compound, and chaos rears its head again. Figure it out and hold the line. Get your field staff ready before you need them. If you know how to measure total cost, you know you can’t afford not to do this.

10. master schedule coordination

I am generally a states-rights guy except when it comes to basic expectations everyone should be able to count on no matter where they live or work. Given that, a dose of federalism and central control can avoid a lot of chaos in scheduling. With business up nearly everywhere, we frequently hear

suppliers and trades complain that site managers from the same company give them mutually exclusive instructions and put them in an impossible situation. Once you have more than a few site managers, you need some mechanism to coordinate supplier and trade resources for optimum production. Without it your neat, orderly NASCAR track becomes an old-fashioned, county fair figure-eight. Next stop, demolition derby.

I have hardly exhausted this list and cut it off at 10 for space considerations. Most of these are simply examples I have encountered in the past few months. Pull your crew together, go over this list, then start brainstorming everything that induces variation and complexity in your process. Hold off until the end the debate on whether it is necessary variation or not. Then have it out. Identify a list of five top culprits that have the biggest negative impact and make a plan to eliminate or reduce the complexity as much as possible.

Last month I participated in Fletcher Groves’ first-ever “Velocity” workshop, spending two days exploring the ins and outs of production, inventory, and scheduling. It was quite intense, challenging, and not for the intellectually lazy. We played repeated rounds of a building simulation game and the students saw clearly that scheduling requires careful thought and planning, otherwise things quickly spin out of control, and chaos ensues. Henry Adams, son of one U.S. President and grandson of another, wrote in the 1800s: “Chaos was the law of nature; Order was the dream of man.”

You may be tempted to say nothing has changed—leaving the goal of bringing order to home building a mere dream—and use this as a convenient excuse not to try. Yet the math of complexity and chaos is beyond compelling and, without corralling it, your street of dreams becomes a dead end. So go ahead, dream the impossible dream. When it wakes you up at night from excitement or futility, email me and let me know how it’s going. **PB**

Scott Sedam is President of TrueNorth Development, an internationally known consulting and training firm based in the Detroit area. Scott welcomes your comments, questions, and feedback at scott@truen.com. Find Scott’s LeanBuilding Blog on www.ProBuilder.com or www.TrueN.com, where you will find archives of past articles. You can also join “The LeanBuilding Group” on www.linkedin.com.

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House plans for today's first-time buyers must combine value with delivering on their desire for amenities.

By Larry W. Garnett, FAIBD, House Review Lead Designer

Quite simply, designing and building homes for the first-time buyer is more challenging in today's market than ever before. As always, price is the number one concern. However, many newcomers have very high expectations. They want the amenities, materials, and design they enjoyed in their Baby Boomer parent's home or their luxury apartment.

Additionally, a variety of lifestyles must be addressed. While many buyers will want a child-friendly home, others may work at home and require an office area. Creating a home that addresses as many of these design considerations as possible relies on a flexible floor plan that's value engineered, or uses "lean design" as described by one of our design team. While the following concepts offer a variety

of ideas and approaches for creating a first-time buyer's home, they also share some basic components: no formal dining or living rooms; flex rooms that can easily convert from a bedroom to a study; and outdoor spaces that enhance the living experience in smaller square footage homes.



Designed for a new infill neighborhood, this traditional styled bungalow features a narrow footprint (19 feet) and a flexible detached garage. The 8-feet deep front porch provides an outdoor living space perfect for watching the children play or visiting with nearby neighbors. A built-in dining booth allows seating for four in an efficient and cozy area. Upstairs, the flexible loft can be a home office or a children's play area. Depending on required building setbacks, this home and garage will fit on a 60-by-100-foot lot.

DESIGNER

Larry Garnett, FAIBD
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www.smartlivinghomedesigns.com
254.897.3518

PLAN SIZE

First floor: 702 sf
Second floor: 525 sf
Width: 19 feet
Depth: 47 feet

THE SOMERVELL



[HOUSE REVIEW]

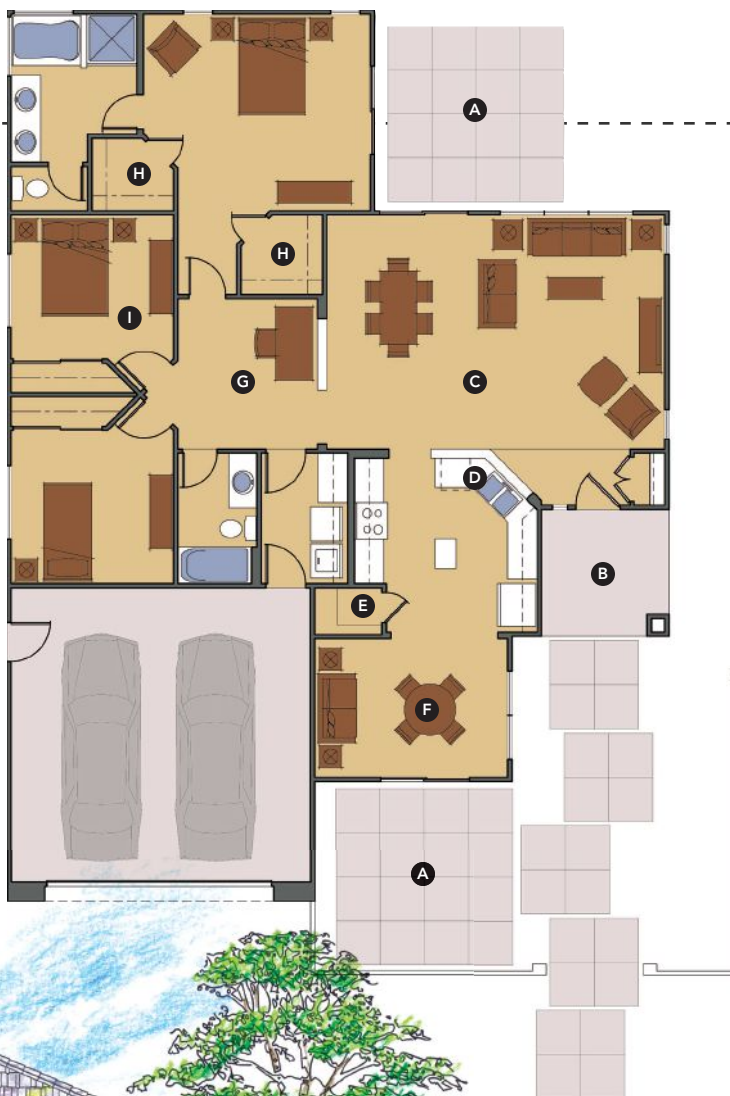
THE PATIO PLAN

ARCHITECT

Richard C. Handlen, AIA, LEED AP
EDI International Inc.
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415.362.2880

PLAN SIZE

Total: 1,600 sf
Width: 45 feet
Depth: 60 feet



design

At 1,600 square feet this is a small three-bedroom ranch—a move up for the first timers or a move down for empty nesters. The size is deceptive as living spaces expand into the landscape. Rooms open to front and rear patios to take full advantage of potential sun or shade exposures.

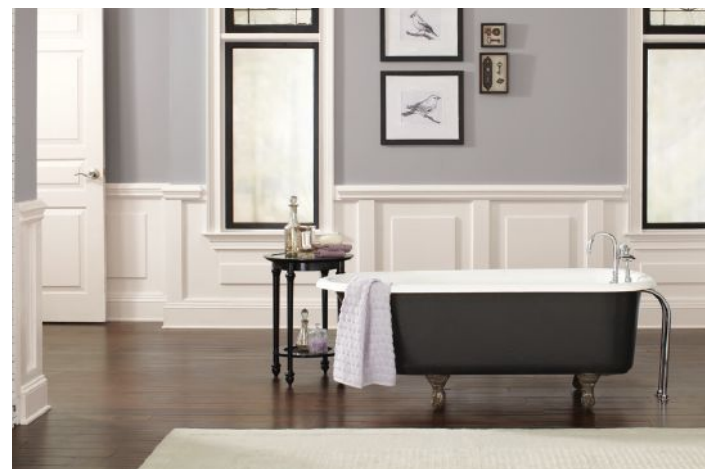
The great room is sized to house both sitting and dining or can function as one large living room. The flex room at the front of the house makes an ideal mini family area with room for a breakfast table as well as a sofa, or could be used as the dining room. The central kitchen overlooks both these spaces as well as views out to the front and rear patios (eyes on the kids as well as eyes on the street).

The bedroom hallway doubles as a desk alcove open to the great room, so tasks such as sorting mail, bill paying, or homework don't have to be locked away from family activity. The master suite opens to the rear patio and has his-and-hers walk-in closets, an unusual feature for a starter house but a must for a move-down market. The middle bedroom can be opened to the hall as a den or retreat off the master bedroom.

- A** Patios on the front and rear take advantage of multiple sun exposures.
- B** Large front porch
- C** Great room
- D** Central kitchen with a sink view to the entertainment center in the great room
- E** Walk-in pantry
- F** Flex room – breakfast, dining, family, or combo
- G** Flex space for desk alcove or expanded closet
- H** His-and-hers walk-in closets
- I** Bedroom 3, den, or retreat



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[HOUSE REVIEW]

FIRST-TIME BUYER

ARCHITECT

Donald F. Evans, AIA
The Evans Group
devans@theevansgroup.com
www.theevansgroup.com
407.650.8770

PLAN SIZE

Total: 1,464 sf
Width: 40 feet
Depth: 80 feet

Many first-time buyers have a family, so this plan is a true split plan with two or three bedrooms, a pool, and a motor court for skates, blades, and basketball. A front porch and large rear screened porch complete the outdoor areas. The great room or grand room works well for young families creating a sense of space, with a good morning room in the kitchen overlooking the pool. One parent can even work from home in the den.



- A** Front porch entry with porte cochere for daytime parking
- B** Motor court/sports court for play protected from the street
- C** Two-car garage with space that converts into a laundry room (if desired)
- D** Master suite with a his/hers closet, dressing area, bath, and pool access
- E** Kitchen with direct garage access, pantry, and plenty of space
- F** Grand room for living and dining
- G** Secondary suite and bath in a split plan configuration





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[HOUSE REVIEW]

LAURA

ARCHITECT

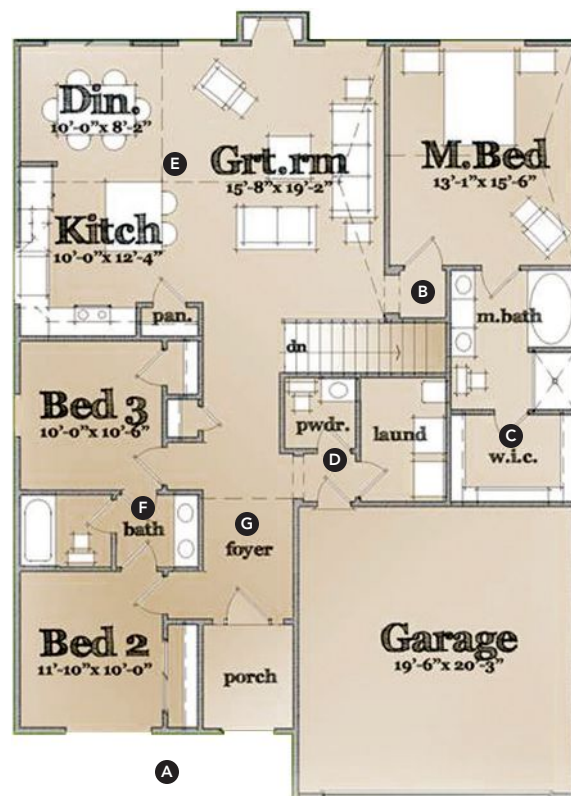
Todd Hallett, AIA, CAPS
TK Design and Associates
info@tkhomedesign.com
www.tkhomedesign.com
248.446.1960

PLAN SIZE

Main Level: 1,639 sf
Porches: 43 sf
Width: 40 feet 8 inches
Depth: 54 feet 4 inches
2-Car Garage: 395 sf

Studies relating to first-time buyers show that their number one concern is value. And maximizing value is the driving principle behind lean design. This

home is a great example of both. Lean design is a collaborative process involving the architect, builder, and trade partners to eliminate waste and optimize marketability by providing buyers with the most bang for their buck. Lean design is not a value engineering exercise designed to strip homes of amenities. Instead it is a process used by leading builders nationwide to create a competitive advantage.



- A** A simple plan form with minimal foundation jogs maximizes ease of construction and buildability while minimizing cost.
- B** An alcove entry to the owner's suite provides privacy from the public spaces.
- C** Placing the owner's closet off the bathroom eliminates unneeded circulation space and optimizes storage.
- D** A powder room is a bit of a luxury in this square footage. This space can also be optioned as a family entrance with a bench and cubbies.
- E** The living triangle is right sized and set up perfectly for day-to-day activities and entertaining.
- F** A Jack-and-Jill bathroom serves the two secondary bedrooms.
- G** The entry foyer provides a long view through the entire depth of the home making the small home seem larger.



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 770.375.7351



- Ⓐ Front porch enriches the streetscape.
- Ⓑ Great room, dining, and kitchen are one contiguous open room.
- Ⓒ Small mudroom space serves as transition from garage to home.
- Ⓓ Bedroom 4 can convert to loft for a more open second floor.
- Ⓔ Laundry room is on the same floor as the master bedroom.
- Ⓕ Master bath can option to provide fewer fixtures at a lower cost.



With the help of the rear-load garage, the simple massing of the homes create a warm streetscape at an affordable price.

GMD Design Group worked with Vanderbilt Homes in Atlanta, Ga., to create a line of rear-load, value-priced homes for the first-time buyer market. This home is the largest of the series and provides room for a family to expand. To provide affordability for the new buyer, it is essential to build efficiently. A full stack box design with an integral garage and minimal corners provides the maximum square footage at the lowest cost.

The first floor of this home is open and expansive and makes the home feel large upon entry. There are provisions for indoor-outdoor living with an optional side porch off the dining area. The second floor features four bedrooms and allows for flexibility to appeal to a wide range of buyers. For example, this plan can be built as a third bedroom with a loft. There also are multiple bathroom options that provide flexibility with the home's sales price.

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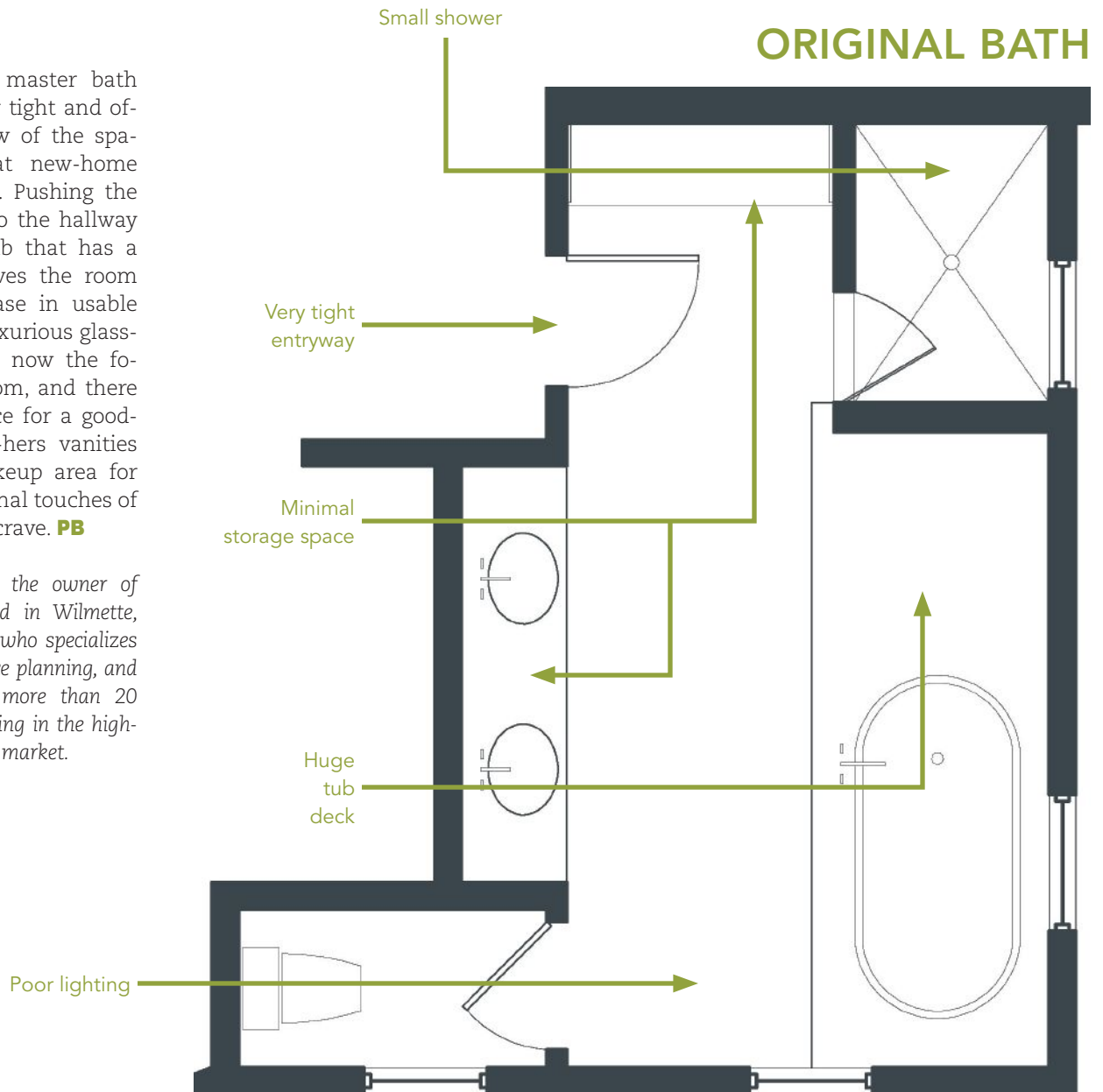
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MASTER BATH MAKEOVER

By Michael O'Brien

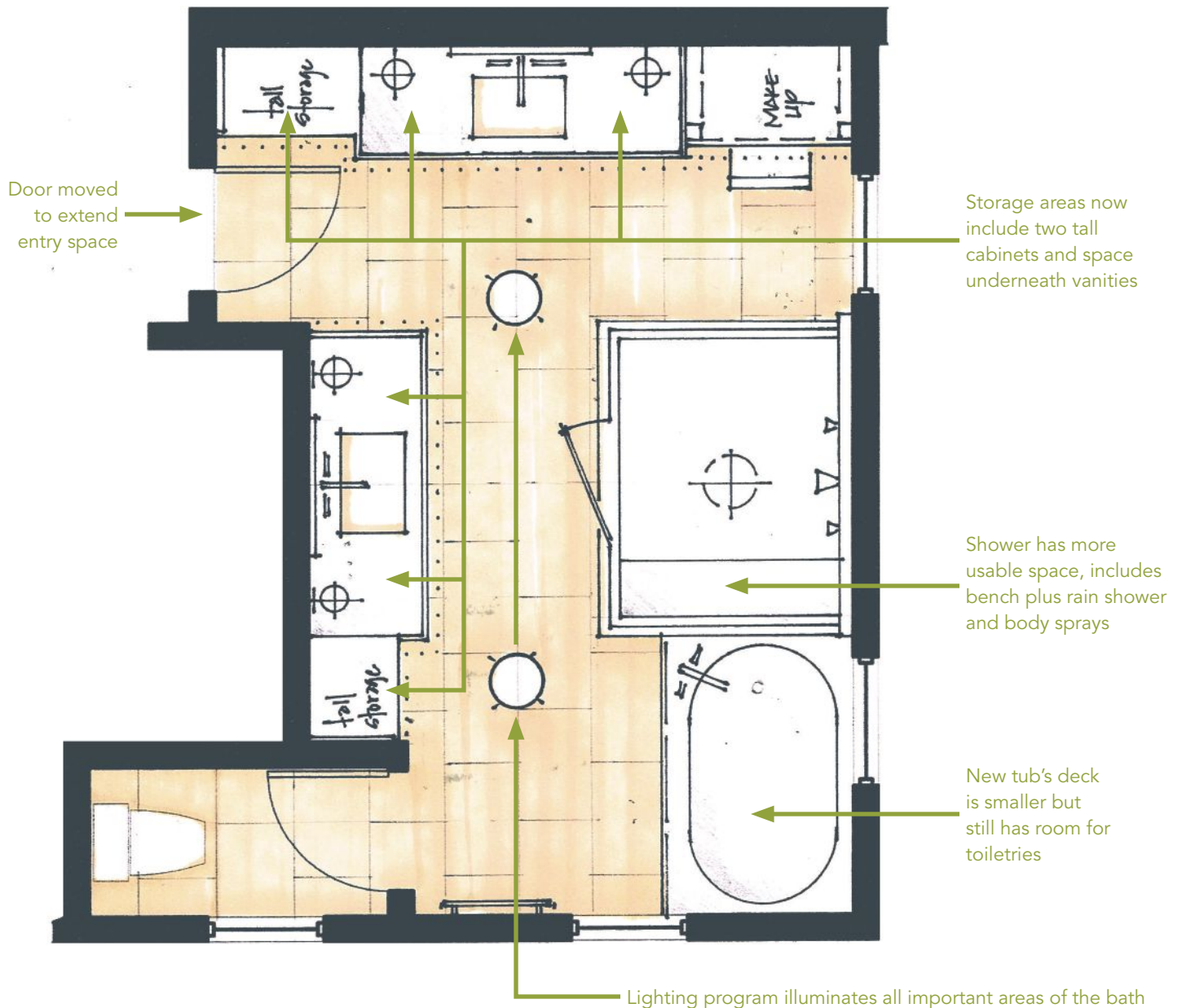
Space in this master bath plan was very tight and offered very few of the spa-like amenities that new-home buyers are seeking. Pushing the bath's entrance into the hallway and replacing a tub that has a very large deck gives the room a significant increase in usable area. A large and luxurious glass-enclosed shower is now the focal point of the room, and there is still enough space for a good-sized tub. His-and-hers vanities (and a special makeup area for her) provide additional touches of luxury that buyers crave. **PB**

Michael O'Brien is the owner of Change Design, based in Wilmette, Ill. He is an architect who specializes in kitchen design, space planning, and cabinetmaking, with more than 20 years experience working in the high-end custom residential market.

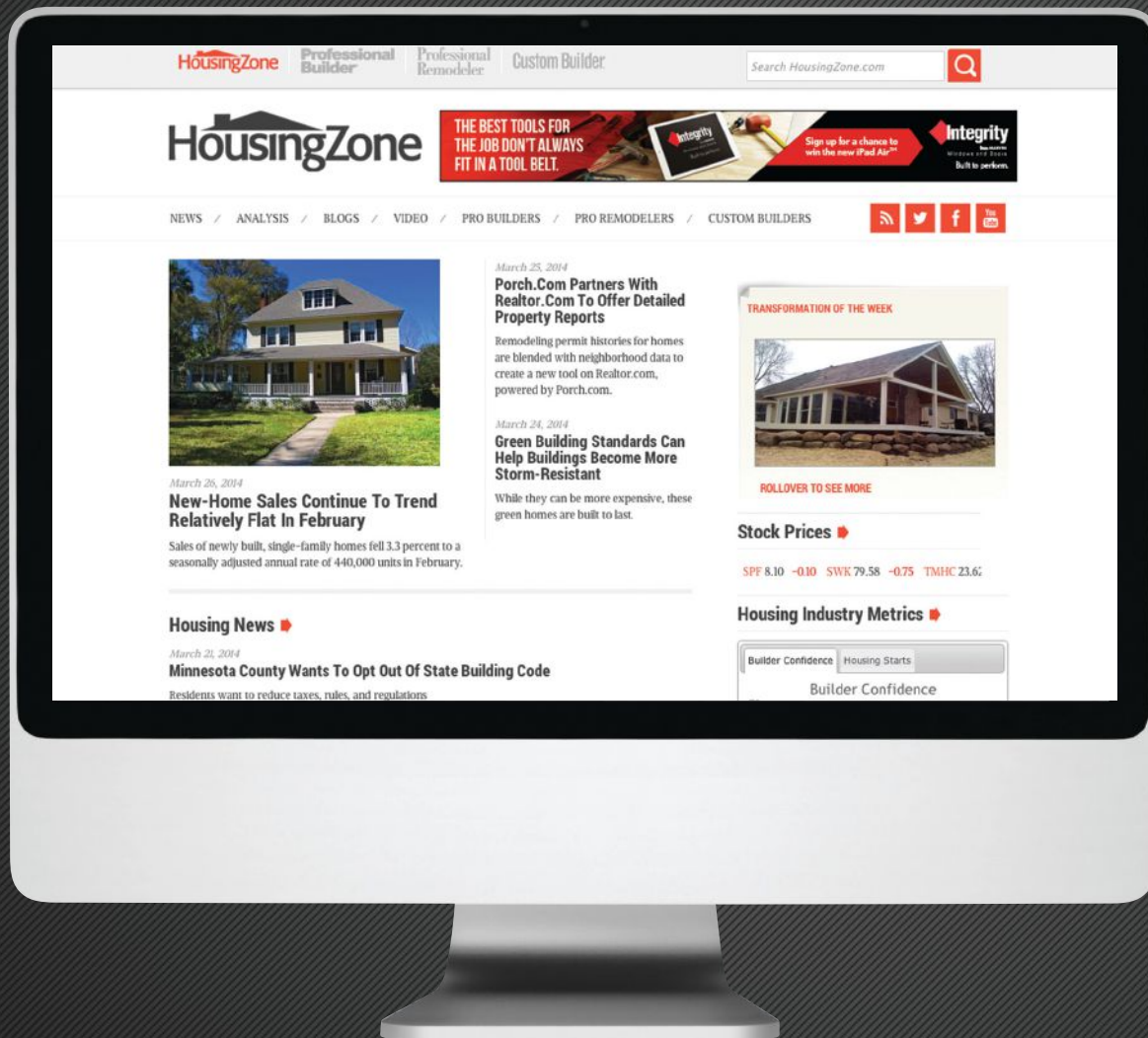


Expanding this bath just enough for an upscale shower, deep tub, more storage, and separate his-and-hers vanities provides the spa-like atmosphere homebuyers want.

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Cellular PVC Railing

Landscape architects and builders can help clients define their outdoor living rooms with the **Walpole** cellular PVC railing system. The systems are available pre-assembled in three standard styles, including: Pendleton, Jamestown, and Estate Classic, or they can be custom. They feature smooth, seamless top rails, and will never peel, rot, or split. Customers may select from an unlimited palette of Sherwin-Williams paint colors that are backed by a 25-year warranty. **For more info circle 800**

Outdoor Lamps

Progress Lighting unveiled four new outdoor collections.

The Loyal classic lantern family features clear seeded glass with inside etched detailing, and a graphite powder coat finish over a cast aluminum frame cross. The Rush family of wall lanterns features etched opal glass that is suspended from linear accents and is available in an antique bronze finish. The Scope lantern collection features traditional, rustic detailing, etched opal glass, and an antique bronze finish. Via modern lanterns have nautical overtones, and feature a black finish paired with etched opal glass. **For more info circle 801**



Mezzo Gas Fireplace

Homeowners can control the Mezzo series of modern gas fireplaces from **Heat & Glo** from virtually anywhere using a Wi-Fi-enabled app on smart phones and tablets. The fireplaces are available in 36-, 48-, and 60-inch sizes, and with single-sided or see-through options. LED under-lighting illuminates the firebox from beneath a bed of crushed glass. Three optional designer fronts are available in multiple colors and finish options. Direct-vent gas technology expels 100 percent of exhaust gases outside of the home to protect air quality. **For more info circle 803**

Beverage Dispenser

This beverage dispenser uses exclusive airflow technology from **True** to deliver a frosty and refreshing beverage, every time. Patented TriLumina LED lighting allows you to choose from white, amber, or blue with the push of a button and provides consistent illumination throughout the interior. Its TrueFlex shelving system allows the cooler to be converted into a beverage center, wine cabinet, or all refrigerator. The dispenser is available in right or left hinge, and stainless steel door or solid panel ready models. 24 Series models are available in single tap or dual tap. **For more info circle 802**



Evo Flattop Grill

The Evo Affinity Classic 30G from **Danver** is part of the Evo Flattop Grill line of manually controlled, gas-fired cooktops for residential outdoor kitchens. Foods can be prepared directly on the cooking surface, or pots and pans may be used. Inner and outer gas tube burners heat the 30-inch diameter ceramic-clad steel cook surface. Evo's technology allows independent heat adjustment across inner and outer cook surface zones, and a push button electronic ignition system ignites both burners simultaneously. Edge-to-edge even surface temperatures range from 225°F to 675°F. **For more info circle 804**

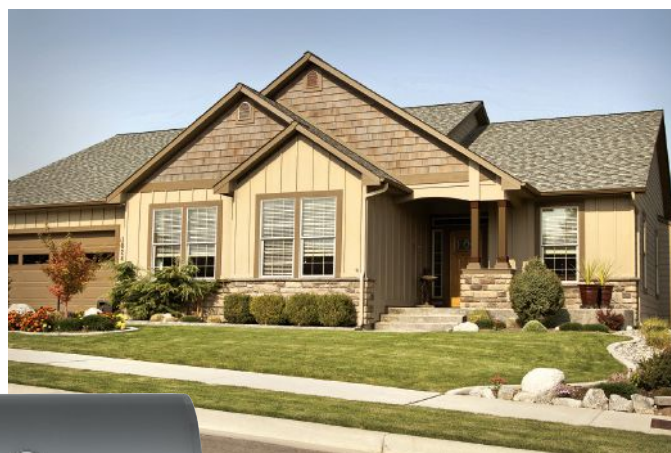


Good Life Decking

With its Good Life decking line, **Fiberon** is providing the benefits of low-maintenance decking at a price closer to wood. The decking has a durable, protective three-sided capped surface that is stain and fade resistant. It resists mold and mildew, and is made of an industry-leading composite technology that will not rot, warp, or splinter. The decking is easy to clean and has a 25-year performance, stain, and fade limited warranty. It is prefinished in three rich, solid colors: Cabin (brown), Cottage (gray), and Villa (cedar). **For more info circle 805**

Grill in a Box

The Two Burner Grill and Grill in a Box from **Coyote** is a compact professional grill that is great for smaller homes and apartments. It features interior hood lights and improved heat control grids. This 304-grade stainless steel grill is available as a preassembled Grill in a Box or as a grill head only. **For more info circle 806**



Paver Profiles

AZEK Pavers added three new products to its lineup. The 8-x-8-inch standard paver answers the growing trend toward both larger paver aesthetics and multi-sized paver patterns. The resurfacing Bullnose paver provides a rounded finished perimeter edge to any paver. The resurfacing Transition paver has a slanted edge that acts as a mini ramp to transition from the paver height down to the level of the ground, substructure, or walkway. The 8-x-8-inch and Bullnose pavers will be available in Redwood, Boardwalk, Village, Olive, and Waterwheel. The transition paver will be available in Redwood. **For more info circle 807**



Woodgrain Structural Column

The new 9-inch tall, square Woodgrain Structural Column from **Fypon** can be stained to resemble real wood, but comes with all the benefits of polyurethane. The column comes with the cap molded in and a loose base. It is reinforced and has a load-bearing capacity up to 12,000 pounds. The pre-primed column is ready for paint or stain, and installation hardware is included. **For more info circle 808**

Graphite Ultra Cork

Duradek is offering a new color in its Ultra Cork line. Ultra Cork is now available in graphite, in addition to natural, espresso, and macchiato colors. Ultra Cork emulates a natural looking cork pattern for a look that suggests subtle, comfortable luxury. **For more info circle 809**





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756	766	776	786	796	806	816	826	836	846	856	866	876	886	896	906	916	926	936
757	767	777	787	797	807	817	827	837	847	857	867	877	887	897	907	917	927	937
758	768	778	788	798	808	818	828	838	848	858	868	878	888	898	908	918	928	938
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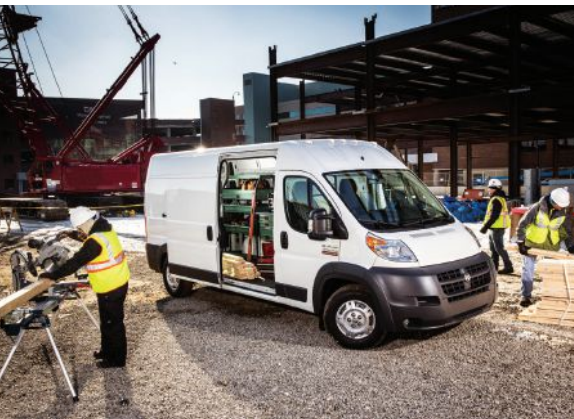
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ProMaster Van

The new 2014 ProMaster is the latest addition to the Ram commercial vehicle lineup. The purpose-built, highly customizable van combines functionality and versatility with modern styling and professional appeal. It is available in two roof heights, three wheelbases, and four body lengths. It offers exceptional cargo capability, durability, a unique front-wheel-drive system, and outstanding uptime. ProMaster's best-in-class fuel efficiency, cargo capacity, usability, and total cost of ownership combine to deliver a proven solution for businesses and fleets. **For more info circle 810**

F-150

The new F-150 from Ford features advanced materials that improve durability and inhibit corrosion, faster processors that enhance driving performance, and breakthrough cargo management and towing solutions. The fully boxed ladder frame has more high-strength steel than ever. High-strength, military-grade, aluminum alloys are used throughout the body, improving dent and ding resistance and saving weight to help the F-150 tow more, haul more, accelerate quicker and stop shorter, and contribute to efficiency. **For more info circle 811**



NV Cargo Van

The 2014 Nissan NV Cargo is available in three models—NV1500, NV2500 HD, and NV3500 HD—and in two roof configurations: Standard Roof and High Roof. Powering the rear-wheel drive is a choice of two fuel-efficient engines—a 4.0-liter V6 or a 5.6-liter V8. Both are mated to a standard 5-speed automatic transmission. Enhancements for 2014 include new content for S and SV trim levels along with revised optional equipment packages. All 5.6-liter V8 vehicles now have the former Tow Package as standard equipment. **For more info circle 812**



Sierra 1500

The 2014 GMC Sierra 1500's available EcoTec3 5.3L V8 engine offers the best V8 fuel economy in any full-size pickup at an EPA-estimated 16 mpg city and 23 mpg highway (2wd). Rated at 355 HP and 383 lb.-ft. of torque, the EcoTec3 5.3L V8 offers a class-leading max trailering of 11,500 lbs., when ordered with the available Max Trailering Package (double cab, 4x2). Sierra's all-new EcoTec3 engines are paired with a 6-speed automatic transmission and are based on 50-plus years of proven small-block performance. **For more info circle 813**

Silverado 2500HD

The 2015 Chevrolet Silverado 2500HD delivers the capability heavy-duty truck customers demand, along with greater refinement and control for more comfort and confidence.

It is available in Work Truck, LT, and LTZ trims, and offered in regular cab, double cab, and crew cab configurations.

The double cab model features forward-hinged rear doors, which allow easier access in tight parking spaces. The truck is available with

all-new, stronger 6-foot 6-inch and 8-foot cargo boxes with standard CornerStep bumpers, EZ Lift-and-Lower tailgates, and other features that make cargo handling easier. **For more info circle 814**



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10 ☐ Builder, Developer, General Contractor
20 ☐ Architectural Firm, Engineering Firm, Architectural/Engineering Firm, Designer of Homes
30 ☐ Manufactured or Modular Home Builder
40 ☐ Remodeler working in building activities
90 ☐ Other (please specify) _____

4. Which category best describes your job title? (Check one box only.)
10 ☐ Owner, Partner, Corporate Executive, Director, General Manager
20 ☐ Architect, Designer, Engineer
30 ☐ Construction Manager, Superintendent, Purchasing Agent, Buyer
40 ☐ Other Management personnel
50 ☐ Sales or Marketing Manager
90 ☐ Other (specify): _____

5. What type of construction is your firm involved in? (Check ALL that apply.)
A ☐ Single Family – Custom D ☐ Remodeling
B ☐ Single Family E ☐ Light Commercial
C ☐ Multi-Family F ☐ Other (specify): _____

6. How many homes does your firm build per year? (Check one box only.)
A ☐ Over 500 units D ☐ 11 – 25 units
B ☐ 101 – 500 units E ☐ 1 – 10 units
C ☐ 26 – 100 units F ☐ 0 units ☐

7. What is your firm's annual revenue? (Check one box only.)
A ☐ More than \$10 million D ☐ \$1 to \$999,999
B ☐ \$5 million to \$10 million E ☐ \$0 ☐
C ☐ \$1 million to \$4,999,999

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8. Which of the following building materials, products or equipment do you buy, specify or influence the selection of? (Check ALL that apply.)
01 ☐ Appliances
02 ☐ Cabinets and Countertop Materials
03 ☐ Caulks and Sealants
04 ☐ Central Vacuum Systems
05 ☐ Computer Hardware and Software
06 ☐ Construction Equipment
07 ☐ Decking / Fence Materials
08 ☐ Doors
09 ☐ Engineered Wood Products
10 ☐ Fireplaces and Accessories
11 ☐ Flooring and Floor Coverings
12 ☐ Garage Doors
13 ☐ Green Building Products
14 ☐ Hand and Power Tools
15 ☐ Home Automation Systems
16 ☐ HVAC and Environmental Controls
17 ☐ Insulation and Related Products
18 ☐ Lighting Fixtures
19 ☐ Locksets and Hardware
20 ☐ Paint, Stains and Finishes
21 ☐ Plumbing Fixtures / Faucets
22 ☐ Roofing Materials
23 ☐ Siding
24 ☐ Sound and Security Systems
25 ☐ Tile
26 ☐ Trucks
27 ☐ Windows
99 ☐ None of the above ☐
9. Which of the following publications do you receive personally addressed to you? (Check ALL that apply.)
A ☐ *Builder*
B ☐ *Custom Home*
C ☐ Neither of the above
10. Excluding land, please indicate the cost per square foot of the homes your company builds. (Check ALL that apply.)
A ☐ \$251/sq ft or more
B ☐ \$201-\$250/sq ft
C ☐ \$151-\$200/sq ft
D ☐ \$121-\$150/sq ft
E ☐ \$101-\$120/sq ft
F ☐ \$100 sq ft or less
11. Please indicate your primary supplier for each category:
- | Windows | Siding | Faucets |
|--------------------------------------|--|--|
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| 02 ☐ Pella | 07 ☐ James Hardie | 12 ☐ Moen |
| 03 ☐ Marvin | 08 ☐ Ply Gem | 13 ☐ Delta |
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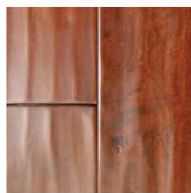
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Ivey Homes Finds Successful Medium Between In-House Sales and Outsourcing



Matt Ivey
Co-owner
Ivey Homes
Evans, Ga.

Builders can find themselves in a tug of war between deciding whether to bring their sales in-house or outsource to Realtors. Matt Ivey, co-founder of Ivey Homes, which builds in Augusta, Ga., adopted a hybrid solution. In 2010, sales for the company's Canterbury Farms community was handed to a local brokerage, which provides a Realtor and an assistant who sell only Ivey properties. For Crawford Creek, a multi-builder neighborhood, another brokerage assigned a three-agent team to sell exclusively for the builder. Ivey shares how this arrangement is working.

Q Describe how your company handles the sales and marketing of Ivey Homes?

A We handle sales and marketing in a variety of ways. Where possible, we are moving to a hybrid scenario. This is where we maintain a relationship with a broker, but the agents work exclusively for us in the new-home arena. This structure by nature is adaptable to the situation at hand. We also still have neighborhoods where the broker is the developer or the developer has chosen the broker, and the broker has full control of sales and marketing.

Q Why did you choose to outsource sales in this fashion rather than bring that function completely in-house?

A When you start looking at in-house, there are a lot of different factors that you've got to weigh. What are the sales volume and velocity for that community? Do I want to carry the overhead? Do I have enough supply in front of these folks to bring them in-house, and what kind of relationship are you trying to establish with the local brokerage community? At that time, we only had one community that had sales volume

and velocity. We were the developer in Canterbury Farms so we had lot supply, but that was all we had to create this program. It was a trial. Either it was going to work for us or it wasn't. In that community, the agent and assistant are direct employees of ours. Later, we were able to take that same hybrid concept to Crawford Creek where we weren't sure what our lot supply would be. Those agents are third-party agents, but they are exclusive to us. So we are able to train them.

Q In what ways are the dedicated salespeople in your arrangement approaching or treating a new construction product compared with how a real estate agent working for a broker might do so?

A When you have agents who represent multiple builders in a community, it's very difficult for them to tell multiple stories to the prospect. That's confusing for the prospect and the agent. The builders end up being lumped together in that situation. What happens is if you're a builder who does anything different, it's hard for the agent to explain what the differences are. So the product becomes a commodity, and in the buyer's mind every builder is the same. Their judgment of value is based solely on what they see. Very little value is placed on differences in materials, customer service, and energy efficiency. Then there are operational challenges. Each builder might have a slightly different sales process, so the Realtor ends up handing the prospect off to the builder. Then the builder has to take the sales process to contract and beyond. In-house agents, however, can take your plans, options, and processes and help the prospect develop the home of their desires. This exclusivity gives the agents who are there a lot more tools to work with.

Q How is the arrangement your company utilizes working out?

A We have much better control of the process from how they greet the prospect, to telling our story, to the follow-up process after they leave. We're more consistent with adhering to our internal procedures and systems. The sales teams can handle the presales directly. Sometimes in a multi-builder community, you can overspec because your house is a commodity, and you're trying to get your home sold first to minimize interest carry. We have a lot less overspecing of homes. From what we've been told, we feel we have better peer-to-peer margins for that market segment. **PB**



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The centerpiece of every great home is a great kitchen. For nearly a century, Thermador innovation has redefined the way America cooks. It is this rich heritage that has made us more popular than ever. With industry-leading pricing packages, our One-Two-Free™ program and unmatched customer service, Thermador will bring significant value to your homes and communities. Thermador will be your partner every step of the way.

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