

Checking in with Those in the Know

Home Remodeling's Editorial Advisory Board 2013

I N AUGUST we enjoyed lunch and a roundtable discussion with several leaders in the region's homebuilding and remodeling market. As in years past, much of our discussion revolved around the economic situation for the country and the region. In a notable shift from recent years, the members of the Editorial Advisory Board unanimously agreed that the building industry is on an upward trend.

The Editorial Advisory Board of *Home Remodeling* includes: Rich Bryant, vice president of Cape Associates; Richard Capen, co-owner of Capewide Enterprises; Chris Joyce, owner of the Joyce Companies; Rob McPhee, president of McPhee Associates; Dave Murray, director of business development for KAM Appliances and Tony Shepley, owner of Shepley Wood Products.

Home Remodeling (HR): Once again, it's the economy, economy, economy. The Warren Group recently reported double-digit increases in median home sale prices for the fourth straight month and single-family home sales are at their highest volume since 2006. How's business this year compared to last year? And, what are your expectations for next year?

Chris Joyce: Our first six months were way over the year before. June was an incredible month for us. We were busy right until July and August is always slow for us; it's the seasonality of projects. It looks like the fall is going to be busy.

Dave Murray: Our business has benefited from the increase the South Shore and Cape Cod housing markets are experiencing. Comparing this year to 2012 we have seen increases in full kitchen appliance package orders by our customers and that number was up from 2011. If the housing market continues to grow steady over the next six months, consumer confidence will follow and our projects for 2014 will remain positive.

Rich Bryant: 2012 was a good year. This year I would say that it was slightly down in some areas than 2012. We are seeing a lot of

stuff come across our desks now for projects in the fall and early next year. We expect things to stay fairly even for next year.

Rob McPhee: We've seen each year, as we have met here (at these Editorial Advisory Board meetings), a slow but steady step in the right direction. Historically our summers are a little quieter in the field, but we are busy permitting and pricing, drawing and when I look at what is coming up in the pipeline it is going to be a very busy winter. I think it's getting better, but (the market) is still competitive and fragile at the same time. Although the jobs are getting bigger, there is still a lot of small stuff out there. Not everything is a new house or a tear down. There are more of them than a year or two ago but there is still a lot of small stuff, which isn't a bad thing, because it keeps a lot of people busy and it will lead to more.

Tony Shepley: We are still below the theoretical absolute minimum (one million single family housing starts per year nationally) that no expert ever thought we'd get down to. Now we've been down so long, that 900,000 housing starts looking good! To put this in perspective, we were well

over two million starts in '05 and '06, got as low as 400,000 starts in '09 and '10, and are now thrilled to be at 900,000. The break even number of annual housing starts to satisfy demand from immigration, and first time homebuyers is 1.3 million. We have not started satisfying pent up demand. Business is markedly better and we are optimistic.

McPhee: The NAHB says that a million plus housing starts annually are what is needed for a healthy housing industry. And like Tony says, we were down to the 400,000 range. We fell way behind for a while.

Shepley: Yeah, it was amazing to watch those charts (go down). You would figure that people would've been going out of business left and right. But everyone hung in there pretty well.

What we need now is a measured recovery. The thing that scares me is if you look at what fuels this better economy, and it is definitely better, it is fueled by record low interest rates. But if those were pulled, what would happen then? I think fragile is a good way to put it.

McPhee: Yeah, we are not out of the woods yet, I don't think. But it is better.

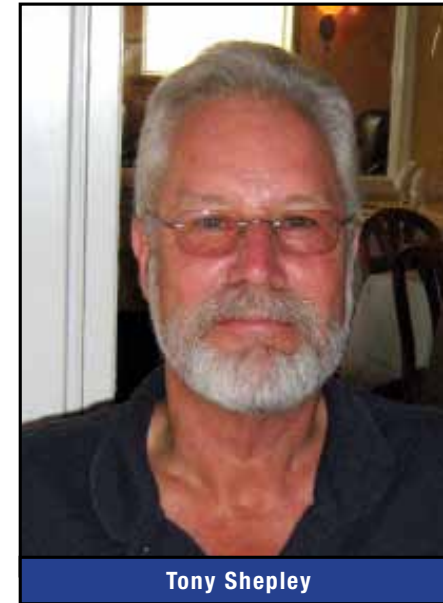
Richard Capen: I would definitely say you are right. We are not out of the woods yet. I was reading in the paper that there is a certain percentage of the population who haven't come through the downturn. The people who have money and who are insulated are doing better but the average person who is going to work every day and making \$50,000 to \$60,000 a year salary, they aren't really feeling the recovery because everything is more expensive in the market place, whether you are buying groceries, gasoline or lumber. They have less buying power. Employers such as myself are concerned with increasing wages at a time where we are looking at healthcare. My renewal for Capewide Enterprises is coming up September 1st and I am excited. I have a four percent increase. And I am excited about that. There are a lot of people who are expecting double-digit increases.

McPhee: Yeah we just did.

Capen: We are not out of the woods. I am thankful that we are seeing single-digit increases this year. But in order to keep up with everything, because we do small jobs—and we do large jobs and medium jobs—I've increased my work force to get the work done. So now we have 30-plus employees, which costs more but the average customer thinks that things shouldn't cost any more money. We are coming out of the downturn so people are still looking for a bargain. The cost of doing business has gone up all the way around, so you have to charge more money.

HR: Rich (Capen), you said that you increased your work force; by what percentage?

Capen: We increased our staff by 20%. And that increase is in carpenters.



Tony Shepley



Rob McPhee

Joyce: We increased for the peak season about 20% as well, which is our April, May, June, July.

McPhee: We added one.

Joyce: You have a lot of sub-contractors you work with, Rob. So, you just hire more subs.

McPhee: Yes. That's true.

Capen: In order for us to go to all of the projects that we have, say there are a dozen projects going on, you need to have enough employees.

McPhee: That's that constant balance. It's like that dog chasing its tail. Your backlog starts to fill up, no one wants to wait. You hire more people. Suddenly you catch up. It feels like the backlog is not as long as you would like to continue to support the staff you brought on board. So you go out and chase more work. It's hard to find that happy medium. After the downturn we are probably all still so afraid to say (to a customer): "It will be at least six months before I can even look at this again." It's like I would never say no after what we've

all been through. You know, you find a way to get through it. But you do have to ask yourself "What can I commit to and what am I over-committing to?"

Bryant: You reach that critical mass and you don't want to over reach yourself. You want to be able to sustain your growth. You don't want to hire, hire, hire and all of a sudden then have the influx of work decrease and then have that additional staff that you may have to layoff.

HR: Rich (Bryant), did you add staff this year?

Bryant: We added field staff and office staff. Maybe 3% increase.

Shepley: Ten percent for us. But I think that we all learned how fast the bottom could fall out. So now you want to give good service, stay staffed up but you don't want to over staff. So it is a balancing act. I think everyone is re-staffing very carefully.

HR: Other than the economy, what are currently your biggest concerns about running your business? What about looking ahead to the future?

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Joyce: I have two major concerns. One concern is labor. Where I went to college they are having the lowest enrollment in history in the trade areas. The other is regulation. Unlike the construction industry, which has been full of regulations, it has just gotten to us (in the landscaping industry). I am very concerned about the regulations facing our industry, pesticide use and things along those lines. My biggest concerns are skilled labor and regulatory issues.

Bryant: We get a lot of applications for labor, so the selection process is a little bit slower now and you can pick and choose. We are getting applicants from trade schools and colleges that offer construction-related programs. There seems to be an influx of talent. One of our biggest concerns going forward is to sustain our growth and maintain a quality work environment to keep employees. Historically we have had



a good retention over the decades. The other thing is, I think growth is good, but you don't want to take on too much. The key is to continue focusing on performing the right amount of work at the high level of quality and efficiency our customers are accustomed to.

McPhee: Regulation is an excellent one. Most of our work is subbed out. We have a small staff in house, but mostly we have a team of subs that we have been working with for a long time. But, when I look at most of the skilled guys out there, most of them are on the older side. We haven't gone out searching for the youth, but we are going to have to. Rich, I think you've had good luck in the past with interns from the tech schools in the summertime. I think that would be great to have some correlation between the home builders and the tech schools and try to promote that more often.

Shepley: In the old days, people's careers seemed to move a little more slowly. The good news is that you guys represent businesses who do take the time to move someone along (in their career). Frankly, if you go to work for a big-box or corporation they are probably more intent on keeping people down, not how they



grow their skills because then they have to pay them for it. In the old days you took your time, you apprenticed and I think for a lot of us, someone took the time to train us. Now people have the expectation that they get an instant career. And we have this expectation that we get an instant job star, when in fact it

is up to us to put the curriculum together, get the experience going and bring them along.

Capen: Regulatory issues are something that we deal with on an everyday basis. The aging workforce is a concern to me as well. I look around at what my average age is and the young people that I have stand out. Out of 36 people, I have two people in their twenties and then the next group is in their mid-thirties and then you get into the forties and fifties and sixties. That is a concern and as I mentioned earlier, insurance is a big issue, that's regulation. The rising health care costs affect us greatly, not only just for our health insurance but also for worker's compensation. As your staff gets older, they may be more apt to have an accident. The more accidents you have the more insurance goes up and that is what we call our overhead. Then you need to charge more money. Regulation and insurance is going to continue to be a concern for any small business.

Murray: Though the economy impacts our business greatly we see the low percentage of young professionals and their families living full year as another concern. Our business is like many others that experience swelling sales during the spring and summer seasons. We put a great amount of importance on our year-round customers and can't afford to see that number grow lower year after year.

HR: There's been a lot of press over the newly revised flood maps released by FEMA. Any concerns over how this will affect your business? Any other concerns being generated by the regulatory processes overall?

Shepley: We have our concerns about this re-mapping and why it is felt to be necessary. This can create a lot of problems for property owners from permitting to getting insurance. Right now, the market really doesn't need more obstacles to make things more difficult. We have a budget

deficit to address! Other regulatory concerns are the ones that very few see coming until they arrive, such as the EPA regulating generator emissions. It's puzzling when a clean-fuel generator that runs 10 minutes a week to exercise and occasionally when actually needed becomes an emission focus for the EPA. Another local concern is the continuing push to use DCPC's (Districts of Critical Planning Concern) for a reason they likely weren't intended. There is a lot of pressure to eliminate "grandfathering" and "by right" allowances for property owners. When a property owner makes a substantial investment, they should know what they are entitled to and it's a real challenge when the target keeps moving.

Murray: When regulation is increased more money will need to be spent by the consumer on "red tape" issues. This will eventually lead to less money being spent on the project and a decrease of money being spent on consumer goods.

Bryant: Historically it has been a monetary threshold for someone going to do capital improvements to their house. If the threshold exceeds 50% of the fair market value of the structure, and if you are in a flood zone, you are required to bring that up to flood elevation. Now, I don't know if it is the same elevation or not. But just think about moving that arbitrary flood zone up a foot in elevation. It's huge.

McPhee: It is going to devalue a lot of the homes (that are already in the flood zone or will be). Most people don't really realize what that costs on an annual basis. And if they own a home or just bought a home thinking that they are going to retire and do a renovation or tear it down, there is a whole set of parameters that we now have to comply with when we go in to rebuild compared to when it was not in a flood zone, which is going to add to the cost. And it is



Richard Bryant

going to limit them on some of the things that they can do.

Capen: A simple septic upgrade gets affected greatly by being in a flood zone because now you have to go to the conservation commission. Now if you have to go before con-com because you are in a flood zone, you are going to double or triple your engineering fee to do that. And it also adds time to the project because you have to get in front of the commission.

HR: Are you finding that the tighter lending regulations within the mortgage market and increasing interest rates are negatively affecting your company or making it more difficult for people to start anticipated projects?

Murray: If consumer lending is tightened and interest rates increase eventually consumer spending will flatten out. Despite tighter lending regulations and increases in interest rates we have not noticed an effect on our business.

McPhee: For us, we haven't really seen much of an effect on the interest rates because most of the people are cash buyers or selling something else off-Cape and putting their equity down



Dave Murray

here. So they may get a bridge loan or a construction loan to cover that gap, but most of the time they are not doing the construction financing. Those that are, I don't think we've had a problem with the rates scaring them away, but what has happened is the appraisals have been a problem for a while. Because the appraisers are only going back to a certain time frame and appraising against re-sales that may have been built 10, 12, 20, 30 years ago instead of on new builds compliant with current codes and sets of regulations.

HR: In both our home-related titles (*Home Remodeling* and *Southern New England Home*) we're beginning to see 'down-sized' homes and condos, primarily for retirees, which are decidedly smaller in size yet beautifully executed. Is your company experiencing this trend?

Bryant: Probably a little bit of both. We do a lot of work in Provincetown, so we are inevitably seeing smaller lots and houses. From scratch we are now seeing a lot of smaller-sized projects.

Shepley: We are going back to quality. This is old news. The NAHB has been reporting that the size of the average American home has gotten smaller.

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Capen: Some of it is dictated by regulation. On a tear down, how big you can build is dictated by how big the original structure was. If you have a project in Popponessett, it's probably pretty small.

HR: Do people spend money landscaping a small piece of land, Chris?

Joyce: Oh yeah. You would be surprised. We have had a number of small projects this spring that really turned into some really great spaces, especially with the whole outdoor living theme. You don't need a lot of space for that to become a big ticket item. What we are seeing too, with people especially in a recession, people will pick small parts of their yard to landscape. Let's just do an outdoor patio with some screen. Fire pits are hot right now. People are doing fire pits with little patios. We've done more this year than ever before.

McPhee: Yeah, that's been a big trend; you're right. And even on some of those small lots—you'd know more than I would, Chris—if it is a small property, a lot of the time they are looking for screening and maybe a little bit heavier on the landscaping. They're looking for a little more density to try and give them some more privacy and kill the sound.

Joyce: Yeah, no question.

McPhee: We have seen it both ways. The people that we have built for in the past say they want to do something again because they want to downsize. They are retired. The yard is getting to be a lot of work. House is a lot of work and keeping it up on a regular basis, it just becomes expensive. It's a lot of work and they are looking for something on a smaller scale. And then you have the young professionals coming from off Cape who have done very well for themselves. They are buying for the location, or have had the location and now they are looking into doing something. They are getting into some bigger projects or more detail and spending some money.

HR: What's new? What's on your mind? What do you want to talk about?

Shepley: What's new is that we have a lot of good things going on here on the Cape and Islands. People are more upbeat than they have been. Young people who may have moved away are talking more about coming back, because they miss what we have here. The Cape Cod Chamber of Commerce says it eloquently with its "Live, Work, Play, Create" slogan. The Mass Highway Department is working on plans for a third bridge to alleviate our peak traffic issues that can give us a bit of tarnish on our otherwise sterling image. Yes, we have some wastewater issues to work out too, but that dialogue has started too. We truly are a world-class address. All we need to do is keep focused on what's right and not get dragged down by what's wrong.

Capen: Every municipality has wastewater issues, whether they are thinking about putting it in or creating a new wastewater infrastructure, and other communities are having to deal with getting an upgrade. We have a pretty decent plan down here.

Bryant: Yeah, but look at Eastham. Look at the property devaluation that is going to be happening. The water is contaminated primarily through a plume that originated through the town landfill. The town cheaped out years ago and built it and only put one liner on the bottom instead of two. To save some money back then. And now they have a whole area that is taking showers with Poland Spring water. Proposals were out there and the town shot them down.

Murray: The most exciting product in 2013 has been the popularization of convection steam ovens. Manufactured by several companies, these ovens provide a wonderful versatility for cooking. Cooking with steam doesn't remove vitamins and retains the flavor and natural look of the meal being prepared. These units are capable of roasting, baking, warming, defrosting and steaming. Many consumers are finding this product can replace the microwave and the oven. 🏠