

DON'T MISS THE HOUSING LEADERSHIP SUMMIT, SEE PAGE 85

TEN FOR '10

ACE THE SPRING
SELLING SEASON

See page 66

Builder

hanley wood

THE MAGAZINE OF THE NATIONAL ASSOCIATION OF HOME BUILDERS

FEBRUARY 2010



Spaces from Shea Homes

LESS=MORE

Production builders find sweet spot with small homes

HAVE IT THEIR WAY

Simplified customization helps builders compete on product instead of price

WWW.BUILDERONLINE.COM

Your clients are ready to build.
We have a house plan they'll love.

Visit
BuilderHousePlans.com
to find your client's
dream home today.

Builder

INNOVATE ■ CREATE ■ SUCCEED

From: [BUILDER February 2010](#)
Posted on: February 16, 2010

As You Like It

Unwilling or unable to compete in the price wars, many builders see customization as the key to riding out the recession. Some treat it as an art; others as a science.

By: [Jenny Sullivan](#)



Credit: Courtesy Coastal Living/Tria Giovan

Common Denominators: Many of the floor plans in Structures Building Co.'s HouseSimple program started out as custom designs. Those best suited for mass appeal offer features such as open kitchens and first-floor master suites, according to owner Steve Kendrick.

Historically, home builders have fallen into one of two camps: custom craftsmen specializing in one-of-a-kind homes or volume builders who build houses en masse, and have fine-tuned their systems and pro formas to a T. But all that's changing now. Thanks to digital technology, we've entered an era of hyper automation and extreme personalization. Even in these lean times, buyers still crave tailored spaces that look and feel like unique expressions of themselves. But they don't want to get bogged down by minutiae when it comes to selections, and they don't want to pay the premiums associated with custom design.

Steve Kendrick, a builder based in Charleston, S.C., is one of the many to have evolved in response to this new reality. Before the bust, revenue streams for his company, [Structures Building Co.](#), were split almost 50/50 between one-of-a-kind residences for well-heeled clients, and spec homes for those with refined tastes but who wanted the instant gratification and slightly lower price tag of a move-in-ready house.

Things have changed a bit since the peak.

"We can't build spec homes anymore because the banks just aren't financing them," says Kendrick, whose boutique outfit builds approximately 10 homes per year. "And while a lot of builders in the area have gone out of business, their superintendents have gone on to start their own companies, so the number of custom builders on the market hasn't actually gone down. We just have new competitors now whose overhead is limited to a truck and home office, no workers' comp or experience running a business, under-pricing homes. Instead of complaining about it, we're looking for a new niche that, with

luck, will allow us to stop doing bid work.”

With this goal in mind, Kendrick is on the cusp of launching HouseSimple, a build-on-your-lot program offering a library of luxury plans with preselected, pre-priced base packages, as well as upgrade options for lighting, fixtures, hardware, appliances, and exterior paint selections.

“A lot of people get scared off by the custom building process because the design meetings and selections are so time-consuming,” Kendrick observes. “The idea behind HouseSimple is to give buyers a blueprint as a starting point. From there, they can keep it simple with the finishes and schemes we’ve preselected, or they can fully customize. Or they can customize just one part of it, such as the lighting package. The overall idea is to simplify the process and make it less overwhelming for those who want something that looks and feels custom, but don’t have the time to pick every little detail.”

Kendrick recognizes there are trade-offs to going down this path. HouseSimple homes won’t command the same \$1 million-plus price tags as his custom jobs, or even the prices of the fully loaded spec homes he built prior to the bust. Instead, he’s anticipating a more moderate price range of \$400,000 to \$750,000 per semi-custom home, not including the lot price (which the client carries, thus minimizing the builder’s risk). It’s a necessary concession that acknowledges growing competition from resales and foreclosed homes, he says, “including new houses that have never been lived in that are now available at really reduced prices. Usually these kinds of buyers want to be in a house sooner rather than later, so we’ve got to make our process as quick and easy as possible, but still customizable.”

Semi-Sweet

Kendrick isn’t the only custom builder who realizes that while buyers may say they prefer to have it their way, a blank canvas can be daunting.

“We are always happy to design from scratch, but some people like the idea of being able to select a space and modify it,” says Carol Ann Zinn, whose firm, Zinn Design Build, builds approximately 15 to 20 homes per year in Chapel Hill, N.C. Many of the designs created for custom clients are subsequently added to her firm’s plan library, where they become springboards for derivative versions.

As an example, Zinn cites one relocating couple who had their hearts set on a center hall colonial, in keeping with the layout of the home they were leaving in New York.

“They chose a plan from our portfolio that was based around a traditional center hall, but that element ended up being the only frame of reference to the original plan,” says Zinn. “Every other space in the house is now highly customized, open, and contemporary.”

The semi-custom option is especially appreciated by the client who walks a house and knows that it feels great, but can’t articulate the myriad details that make it so. “The reality is that people come to us because they identify with our taste and they feel like we’ll be a good guide for them,” says Zinn, a former artisan potter whose portfolio includes custom fireplace mantels, painted kitchen cabinetry, picture molding, and a proprietary catalog of handcrafted stairway newel posts by local woodworkers. “They trust that their house will be unique, but also a cousin to the other homes of ours that they’ve seen finished.”

Architect Donovan Davis sees the trend toward plan modification as a natural outgrowth of the current buyers' market. "On the semi-custom side, you see a lot of red-lining of existing plans," says Davis, whose Austin, Texas-based firm, Danze & Davis, juggles its fair share of custom work, but also produces stock plans for small regional builders and for large publics such as D.R. Horton and Standard Pacific.

Credit: Rick Ricozzi

In *Builder We Trust*, builder/designer Carol Ann Zinn has cultivated a group of clients who appreciate her sense of style and want her to make some of the decisions for them.

something that has always happened, but it's more prevalent now than it was in, say, 2007, because the custom guys are getting pressure from the marketplace. Buyers want to know upfront exactly how much everything is going to cost and that's forcing custom builders to become more structured."

"I'm working on four custom homes right now, and three of them are revisions to existing stock plans in our collection," he says. "Right now people are saving a little bit of money by taking a stock plan and modifying it, versus doing a full-blown custom home. This is

A La Carte

At the same time, competition for buyers is prompting many merchant builders to become more flexible.

"Production builders have been in semi-custom mode for a while, where they are offering more plan options within one footprint, including swing rooms that can serve different functions," says Davis. "In that sense, custom and production builders are becoming more aligned whereas before they had been on divergent paths."

This is particularly true of private volume builders hoping to leverage good design and customer service as a differentiating factor in the marketplace.

"I've concluded that you can't be the price leader forever, so we don't compete on price," says Rob Bowman, president of Charter Homes in Lancaster, Pa., whose portfolio includes upward of 40 plans, all created by the builder's in-house architectural staff. "Once you establish that position and the market rebounds, I don't know how you dig yourself out of that."

Instead, Charter Homes has focused on resale value, relationship building, consumer choice, and good design. Its tag-line, "Endless Possibilities," sums up the strategy that fueled an upbeat, market-defying 2009, during which the builder sold 150 homes (up from 131 in 2008) and opened three new communities.



"Basically no two of our homes end up the same," says Bowman, noting that buyers may choose from a cornucopia of pre-selected options for flooring, finishes, fixtures, trim, paint colors, appliances, elevation styles, and even side and rear porch additions.

"Everyone walks in thinking they want a custom home, but they don't realize all the headaches that go with making a million tiny decisions," he says. "We make that process easier and end up giving people about 95 percent of what they want. But we are also very disciplined in our approach. We have always valued good design, scale, and proportion, and when times got hard we did not cut creative."

For the sake of profitability, though, there are limits to how much buyers can tweak the look and layout



of a given house. "We don't go off catalog, and we have a unit price for every piece that goes into a house," Bowman explains. "Our plans are value-engineered to keep our construction costs in the low \$40s per square foot."

Where the builder draws a definitive line is when buyers ask to move walls or make structural changes that affect pricing and carefully choreographed trade sequences. "This whole game starts with your sales team," Bowman cautions. "You have to define your processes and what you're going to offer before you start selling. You can't have salespeople saying, 'We'll do whatever you want,' just to lock in a contract. If buyers want incentives, you can offer that with things like interest rates. But you cannot give up your system."

Sivage Homes, which builds in six Texas communities, follows a similar mantra in the realm of fixtures and finishes. But the San Antonio-based builder has also taken flexibility a step further with a menu of pre-planned structural options that include bump-outs and floor plan extensions. "Some of these variables do affect the footprint," says CFO Jamie Pirrello. "If someone takes the original plan and extends it, we actually switch gears and work off of a different pre-drawn plan. To the buyer, it looks like a single plan that's being modified for them, but physically, our process is that it's two different plans."



The "sun space" is a popular plan option

Credit: Courtesy Charter Homes & Neighborhoods

Granting a little latitude can yield greater returns when it's played right, he adds. The extra square footage in a small bump-out is cheap from a trade standpoint, Pirrello explains, which allows Sivage to offer it at a good value. "If you have a 1,300-square-foot house that you are selling for \$130,000 and you add an extra 100 square feet to it, you don't have to charge buyers the same rate per square foot for that extra space. Rather than charging \$10,000 for it, we'll offer it for more like \$4,500. We buy it cheaper, so we can offer it for less and still make a margin off of it."

Little perks like these have gone a long way in distinguishing Sivage from competitors catering to first-time buyers—a market segment for whom design options feel particularly luxurious. Sivage closed 222 homes in 2008, 280 in 2009, and is on track to close

more than 300 in 2010.

"For a lot of builders, the easy answer is, no, we can't do that because our system can't handle trying to do different things," Pirrello says. "But we've found that's not entirely true. You can build a system that allows some level of customization, and that effort, in turn, drives positive feedback and referrals. Rather than being difficult to work with, we are trying to build a reputation as being easy to work with. For that, people are willing to pay premium pricing."

Sivage has further boosted its bottom line by packaging upgrades around lifestyle themes. The "ultimate kitchen," for example, includes 42-inch cabinets, tile flooring, and premium-grade countertops. The "ultimate backyard" has a covered patio with a ceiling fan, a nice barbecue, and upgraded landscaping.

"All of the ultimate packages are offered at our cost, so you pay what we pay," Pirrello says. "This allows us to make the sale and preserve our gross margin on the base home price while creating more

value for the customer so we can better compete.”

Control Issues

When it comes to personalizing homes for individual buyers, Charter Homes and Sivage Homes have figured out what far too many other volume builders have not, observes building consultant Chuck Shinn—that mass customization is profitable and sustainable only when it’s offered in the context of a tightly controlled framework.

“Lots of builders began offering more flexibility when the bottom of the market fell out,” Shinn says. “But in doing so, they did away with all their discipline and started allowing the customer to customize anything and everything all the way up to the closing date. They were obviously doing what they could to sell houses, but it got totally out of control. Construction schedules got extended, last minute change orders screwed up cycle times, and things didn’t get done right. Then all of a sudden these builders found themselves in the remodeling business because they had to fix what they didn’t do right the first time.” Such snafus, Shinn says, can be avoided with carefully pre-planned, pre-programmed, pre-estimated options that make buyers feel empowered with choices, but that ultimately leave the builder in control of the process until the keys are handed over.

Shinn acknowledges that production builders are often tempted to cut corners and skip the due diligence on structural options in their haste to release new plans so they can start monetizing their land holdings. But this is a mistake.

“What really needs to happen is that once you finish a base plan, you sit down with your estimators, trades, and architects and decide what kinds of variables you’re going to offer, whether it’s a bay window in the master bedroom, four different kitchen layouts, or five different kitchen and great room configurations,” Shinn says.

Credit: Courtesy Structure Homes

Structure Homes offers a fee-simple, build-on-your lot program, allowing all manners of customization, including structural plan changes.

“The challenge for today’s production architects isn’t overall home design so much as space planning. You have to create match points so that all of a sudden you have 300 different options that all fit inside the same

plan footprint.”

When it comes to managing options, volume builders would also do well to take a cue from other industries that use the Internet to engage customers and automate the design process. Consumers should be able to build their dream house online, just as they can custom design a car or a pair of sneakers from a menu of variables, Shinn says. “You have an interface that says here is the base plan and here are all the things you can do with it. As you make different selections online, the plan changes before your eyes. And so does the pricing.”

For builders who do both custom and production homes, cataloging options can serve as the ultimate upselling tool, Shinn says. But premium pricing is tough in a market where buyers are prone to haggle. The secret, says Shinn, is to include default products in the base price of the home that are not line-itemed. “From there buyers can change things and upgrade and see the difference between the base price and what they’ve selected. But they can’t shop around for price comparisons on the base package, so I know I’m going to make my margins and I don’t lose control. Whenever I talk to builders who are making 17 percent to 20 percent net profit, this is how they are doing it.”

Everything Is Not Included

If there is one point of consensus among builders of all sorts now, it may be that the “everything is included” model isn’t working so well in the current economic climate. For private builders, especially, it’s a business proposition that requires too much leverage and too much risk.

“We used to rough in for everything we could think of so we could sell our options at very low prices,” says Atlanta builder Brendan Murphy, whose semi-custom business, ChesapeakeBuilt, specializes in infill courtyard homes in established neighborhoods.

“That included everything from pre-plumbing for pot fillers to pre-wiring the whole house for surround sound and toe kicks for a central vac system. Even if we weren’t putting it in, we wanted it roughed in so we could sell it,” he says.

Credit: Courtesy ChesapeakeBuilt

Now that buyers are more inclined to nickel and dime, and lenders are less inclined to bankroll excess, that sort of padding doesn’t fly. “Now we can only do those things upon request, so the customer ends up paying a little more for the same option because the rough-in isn’t part of our routine,” Murphy says. Furthermore, many features that ChesapeakeBuilt once offered as standard are now optional, including hardwood flooring in upstairs bedrooms, structured wiring, granite countertops, and 8-foot solid-core interior doors.

For buyers with discerning tastes, this means that half of the total price of a home may well be accounted for in upgrades, Murphy says. “They are getting exactly what they asked for, but they also aren’t getting what they didn’t ask for.”

At the end of the day, buyers can be as variable and idiosyncratic as the design options they desire. But then again, humans are creatures of habit. Acknowledging this paradox has been critical to some builders’ survival, post-meltdown.

Credit: Courtesy ChesapeakeBuilt

TRADE UPS: Special requests from buyers of ChesapeakeBuilt’s courtyard homes have included large picture windows, landscaped patios, and custom tile work.

“We have designed our system and schedules to accommodate one extreme—that being the most involved client,” says Robert Kleiman, a Los Angeles builder offering a portfolio of plans and design schemes that can be customized to the nth degree or purchased as packages that are ready to go. “Some clients love us

because we boil down their choices for them. Others love us for the exact opposite reason. Every client has their own agenda, and we are there to be the conduit and resource library to get them what they want,” he says, likening the business model for his company, Structure Homes (not to be confused with Kendrick’s firm, Structures Building Co. in South Carolina) to Starbucks, where anything and everything you want in the coffee world is possible, but you can also order a standard latte straight from the menu board.

“We’ve got some clients who are researching retardants and the materials in concrete slab, and some who show up on the jobsite wearing a tool belt,” says Kleiman. “Others don’t want to be so involved,

and they trust our interior designers and architects to make choices they will like. Either way they want a house that feels like it was designed expressly for them.”

Bowman summarizes it this way: “It’s hard to predict when exactly the market will turn around. I like to say that I can’t see past the hood of the car today. I can see the hood ornament, but not beyond it. You can’t ever predict your top line revenue, but you can control the customer experience and make it a good one. That’s something to hold onto.” B

Common Denominators: Many of the floor plans in Structures Building Co.’s HouseSimple program started out as custom designs. Those best suited for mass appeal offer features such as open kitchens and first-floor master suites, according to owner Steve Kendrick.

Courtesy Coastal Living/Tria Giovan

Light Fare: One of Charter Homes’ most popular options is a “sun space” that swaps out the rear wall of the house and replaces it with floor-to-ceiling windows.

Photo: Courtesy Charter Homes & Neighborhoods

Trade Ups: Special requests from buyers of ChesapeakeBuilt’s courtyard homes have included large picture windows, landscaped patios, and custom tile work.

Courtesy ChesapeakeBuilt

Inside Job: All of Savage Homes’ entry-level plans offer multiple configurations, such as a dining room that flexes in size to accommodate an adjacent one, one-and-a-half, or two-car garage, per buyer preference.

Rick Ricozzi

Degrees of Difficulty: Clients of Structure Homes in Southern California may customize the builder’s portfolio plans as much or as little as they wish.

Courtesy Structure Homes

Customize Me: Plan modification is a routine part of doing business for Danze & Davis Architects.

Right Sizing: The original plan for this house in Zinn Design Build’s portfolio was 2,400 square feet, but the clients widened it to 2,860 square feet to accommodate an extra bedroom and bathroom on the second floor, as well as a larger family room on the ground floor.

In Builder We Trust: Builder/designer Carol Ann Zinn has cultivated a group of clients who appreciate her sense of style and want her to make some of the decisions for them.

Matt Wright-Steel