

The New Normal

How are Connecticut builders coping with the long, slow recovery?

As 2011 winds down, *Connecticut Builder* spoke with builders in each county and asked them to describe the new reality for their businesses and their markets. The gut-wrenching free fall of the last few years seems to be over, but it's obvious that stability is dependent on the market (*high end*) and the location (*lower Fairfield County, Farmington Valley*) in which you are building. But for most builders, there is still no certainty, and any rebound, even to pre-bubble levels, is far into the future. For the present, builders are being creative, and adjusting to what could be a prolonged period of tight margins, and a daily struggle to make ends meet.

BOB SPROULS, BLUEWATER BUILDERS, WESTPORT

Are economic conditions and the housing market in Fairfield County improving, stable or deteriorating from last year?

Compared to last year, I would characterize economic and housing conditions in Fairfield County as stable. With respect to new luxury home building, the segment of the market that we at Bluewater Home Builders, LLC specialize in, the market over the course of 2011 began to stabilize in our area. Buyers began to feel confident that a new home's sales price accurately reflected market conditions, and as a result, they began to buy again. This, of course, was aided by the Federal Reserve's monetary policy and resulting low mortgage interest rates. The large inventory of new homes in lower Fairfield County was significantly reduced in 2011, and locally builders began buying property for development.

We are currently in the process of developing four new houses in lower Fairfield County and remodeling one home in Westchester County. The houses we are building range in size from 4,000 sq. ft. to over 7,500 sq. ft.

What is your view of next year's outlook for your company?

The outlook at Bluewater Home Builders, LLC for 2012 is positive. We will continue to seek to grow the business of the company over the course of the next year. We continue to build only on premium lot locations, and based on the number of referrals we have been receiving and negotiations that we are currently engaged in, we expect that our business will continue to be robust for 2012.

Have you found any pockets of opportunity?

Most of the homes we have been building are year round residences in beach areas. We've developed an expertise with respect to the regulations applicable to building in beach areas and building homes in these areas has proven to be a successful strategy for us.

Are you diversifying, downsizing your homes and/or your margins or finding new ways to be leaner or more productive?

We have focused more on our custom home building business. This line of our business has continued to grow on a "word of mouth" basis, but without a doubt, one of the driving forces behind that growth has been our website, [\[homebuilders.com\]\(http://homebuilders.com\). The website has been a great tool and an excellent source of referrals. Additionally, the technology we have been using in our office and in the field, whether it be smart phones, ipads or laptops, has enabled us to increase our productivity and the speed of our building and sale cycle, and it has enabled us to be in constant contact with all of our customers.](http://www.bluewater-</p>
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Are you looking for or have you bought land this year?

As a business practice, we are always looking for premium home sites to buy and build on. For 2011, we will have purchased three building lots.

How are you financing your land purchase and/or construction?

Over our years in business we have developed strong relationships with local banking institutions which afford us the opportunity to access financing during strong, as well as soft, real estate markets.

DAVID GORDON, POIRIER HOMES, AVON

Are economic conditions and the housing market in Hartford County stable or deteriorating from last year?

The economic conditions in Avon are stable. We just recently went under contract for a spec house in Bridgewater in Avon. We received an offer of full asking price. We also have had 21 change orders totaling \$234,634. In Canton, we see the housing market there deteriorating. House prices continue to fall, and there is a lot of innovatory of land. People we show lots to in Canton do not like the area as much as they do in Avon.

Appraisals

We are still very concerned with the appraisal process especially for the green homes that we build. We are hoping this will change once the appraisers get proper training and realize the costs that are involved in building a green home.

The great news is the home we built was an energy star home, not green certified, and it appraised at full value, which was \$1,350,000. The home's projected HERS rating is 52 with no renewables. So the appraiser did see value in all of the green features we used in the house, like the spray foam insulation, 95% efficient hydro air boiler, zip system etc. The people are paying cash for the house and they just wanted to make sure the value was there, so that was terrific news.

What this Avon home purchase says about today's practical homebuyer

The people that bought this house are from Westport, CT. They are downsizing from a 12,000 square foot home. They have been looking for a house in Avon for over 3 years. They actually looked at the spec house we sold at 6 Deer Ridge for \$3.55 million three years ago. So the size, price range and

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location were all over the place. We would never have thought these people would settle for a 5,900 s.f. house in West Avon for \$1,350,000. But the people have made over 21 changes to the house. We finished the third floor, finished an elaborate movie theater in the lower level, a new two car attached garage, with an office above, and much more. The best news is the people are wonderful to work with.

What are you currently building or remodeling & where?

We just recently went under contract for a custom home in Canton in the *Griswold Farms* subdivision.

What is your view of next year's outlook for your company?

We have customers that want to build in Avon, but we are having a difficult time finding desirable lots. Toll Brothers recently purchased one of the prime parcels left. The customers want a flat lot in a neighborhood. This is very difficult to find because there are not a lot of lots like this left, and the cost of the lot, if we do find one, is too high for our customer's budget. We offer alternatives in Canton, and other surrounding towns, but all of our customers want to live in Avon.

Have you found any pockets of opportunity?

We have been doing more work in our other company Gordon Development. We have been doing projects for insurance company claims, like all of the water dam problems people had this winter. We have been replacing roofs and repairing water damage. We also have been doing commercial work. We recently replaced the roofs at two large buildings at Avon Old Farms School with a high end synthetic slate called Eco Star.

Are you diversifying, downsizing your homes and/or your margins or finding new ways to be leaner or more productive?

We are building smaller homes, but we always design in our homes a walk up attic for future expansion, and the same in the lower level.

Are you looking for or have you bought land this year?

We are looking for land in Avon. Because there is little inventory of raw land, we are now looking at older homes with land.

How are you financing your land purchase and/or construction?

Depending on the price of the land we purchase, we usually pay cash, and we are financing construction. We are finding the financing is very difficult right now. The days of revolver loans, where you could have money for multiple lots in the subdivision, is over. We can only get financing on one lot at a time. Now we

have multiple closings every time we need financing on a lot, and this is extremely expensive. We are also not getting loan amounts like we have in the past. We still need to pay cash for some of the construction costs because the loan amount will not pay for the entire house.

JOE MASTRONUNZIO, BROM BUILDERS, NORWICH, CT

Are economic conditions and the housing market in New London County improving, stable or deteriorating from last year?

New and existing sales continue to shrink as job losses in New London County are taking their toll. We are currently building custom homes for more affluent clients in Old Lyme, East Lyme, East Haddam, Norwich markets.

What is your view of next year's outlook for your company?

As our legislators continue to tax and spend, the economy will not turn around, and will likely deteriorate further. If the 2012 national election gives us more of the same liberal ideology we have experienced over the last 3 years, we could be looking at the 2nd Great Depression. Conversely, if the country votes in more conservatives, that are truly interested in reducing the size of government, balancing the budget, and reducing the national debt, the economy could be on the upswing by 2014.

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THE NEW NORMAL*(Continued from page 10)****Have you found any pockets of opportunity?***

Without the creation of new jobs in Eastern CT, opportunities will be few and far between.

Are you diversifying, downsizing your homes and/or your margins or finding new ways to be leaner or more productive?

Our client base has sufficient income and assets to afford what they like in a custom home. Certainly, our margins have decreased and our tradesmen and suppliers have tightened their belts, with the hope that they will still be in business when the economy improves.

Are you looking for or have you bought land this year?

We are being very selective, but have bought land if the price is right.

How are you financing your land purchase/construction?

Banks are still willing to lend to AAA credit firms like ours, but we also self-fund much of our land and construction.

NORT WHEELER – MYSTIC RIVER BUILDING COMPANY, MYSTIC***Are economic conditions and the housing market improving, stable or deteriorating from last year?***

I would have to say that there is no noticeable change in either direction from last year. Fortunately we do most of our business in the southeastern CT shoreline area and along the shore we find there is some renovation and custom home activity.

We are just starting a 6,000 s.f. home in Westbrook that was destroyed by fire in July of 2010. We are reusing the existing foundation with some modifications and expect to have the house closed in before the snow flies. The scheduled completion date is June 30, 2012.

What is your view of next year's outlook for your company?

We are expecting 2012 to be our best year ever. We recently hired a new general manager, Andy Gil. Andy is responsible for estimating and all construction activities. Andy is a Building Analysts certified by RESNET and a HERS rater. He brings his knowledge of building performance, geo thermal and hybrid HVAC systems to Mystic River Building. We are planning to make Energy Star Certification a standard for our homes in the near future to differentiate us from our competition.

Are you diversifying, downsizing your homes and/or your margins or finding new ways to be leaner or more productive?

We have diversified over the years to include commercial renovation in addition to our basic services of historic renovations, new homes, repairs and additions. We have also made changes in the way that we estimate projects. We have always been loyal to our subcontractors and suppliers and will continue to be loyal as long as they too are willing to work for less. The fact that my favorite electrician has a great staff, that have been with him for 15 years, and enjoy benefits like paid medical insurance and an IRA program, probably makes him more expensive than I can afford, if I want to be successful at bidding and winning contract awards. We have to price each trade's work at a fair price, and then find competent trades

people that would rather work for less than stay at home. At first, I didn't believe it could be done, but the fact is we all need to work, and a smaller margin of something is better than a big piece of nothing.

Are you looking for or have you bought land this year?

We are looking for land and we have not bought anything this year. Land costs are still over inflated in relation to today's true value. I blame the lack of consumer confidence for the high land costs. The land being held is being looked at as the last tangible asset and land owners seem to be unwilling to reduce costs to today's value, as they are watching their stocks and mutual fund values evaporate. We have been contemplating building energy efficient small homes for the first time home buyer, and when land values are more realistic we will be ready.

How are you financing your land purchase and/or construction?

Private funds for land purchase and we are working with small local banks to provide construction financing and end loans for clients.

BOB WIEDENMANN, SUNWOOD DEVELOPMENT, WALLINGFORD***Are economic conditions and the housing market in New Haven County improving, stable or deteriorating from last year?***

I don't know how others are doing, but we are slower than last year. Remodeling, especially kitchens and bathrooms, has been steady, but new home sales are slow. It's very hard to match the value of resales in this market.

What are you currently building or remodeling & where?

We've built a quick delivery home at *Cobblestone* in Meriden, and that has generated more traffic in that neighborhood. We currently have two homes under contract at *Cobblestone*. We have one smaller custom home under construction in Wallingford and several remodels ranging from kitchens and baths to insurance repairs and room additions. We are also buying multi-family homes in good locations that need considerable work. We completely gut and rebuild them and keep them as long term investments.

What is your view of next year's outlook for your company?

More of the same. Until the overall economy starts to improve and the employment picture gets better, we expect the overall building industry to struggle.

Waiting for conditions to get better is not necessarily a good strategy, so what are you doing?

We are constantly looking for under served niches for opportunities. We're doing smaller projects that we can self finance until bank financing becomes more readily available. Being diversified has helped us maintain our profitability during this extended slowdown.

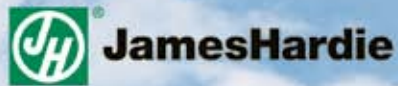
Are you diversifying, downsizing your homes and/or your margins, or finding new ways to be leaner or more productive?

Our products are constantly being reviewed to determine the best value we can give our buyers. This includes, pricing, home

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DONALD A. GARDNER
ARCHITECTURE

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size, standard features. We have reduced our overhead and are asking our supers to do more punch out and warranty work.

Are you looking for or have you bought land this year?

We are working on two projects currently. One is a privately owned subdivision where the approvals have expired and we are working with the land owner to get it re-approved. The other is a bank owned project that we will need to get re-approved and restart the marketing as it has been dormant for two years.

How are you financing your land purchase and/or construction?

We have been able to maintain our construction loans but financing for new projects is very limited and the terms are not what we were seeing a few years ago. We don't expect the availability of financing for new projects to improve until the market gets stronger and the risks, either real or perceived, are less.

BILL FERRIGNO SUNLIGHT CONSTRUCTION, AVON

(Bill is developing Knoll Lane, a pocket community in Avon that represents the New Normal.)

The key in this market is high value in a desirable town. Regarding *Knoll Lane*, we have 6 of 8 homes sold there. In Avon, these homes are a very good value at \$500,000 to \$700,000 for 2,800 – 3,600 s.f. I'm using house designs from a subdivision we built back in 2002, and Rockville Bank is financing AD&C.

Banks are much stricter about credit worthiness, LTV and equity, as they should be, and buyers are insisting on **real value** . . . By and large builders are giving good deals, because to be successful, we have to adjust to the current buyers' market.

SANTO VENEZIANO, VENEZIANO CONSTRUCTION, ROCKY HILL, CT***Are economic conditions and the housing market improving, stable or deteriorating from last year?***

Our high end sector of the market is not really affected as much by the economy. Not to say that there is not more work to be done in cost valuing and budgeting. The market compared to last year has improved. We specialize in masonry, and currently, we have five very large homes we are working on and we are about to start another.

What is your view of next year's outlook for your company?

I wish I owned a crystal ball, but without that ball, I think moderately priced homes will be sluggish, and the higher end home will continue to dominate the market. Our company seems to be in good shape for next year.

Waiting for conditions to get better is not necessarily a good strategy, so what are you doing?

This is the time your really need to focus on marketing yourself and catering to the need of the consumer. This philosophy goes back to my belief that we as home builders need to re-invest in ourselves and our future. Now is the time to focus.

We are diversified and we cut any "fat" out of our company.

Our company is running lean and very efficiently.

Are you looking for or have you bought land this year and how are you financing it?

Yes, we bought land this year and it is privately funded.

PETER FUSARO – PREFERRED BUILDERS, GREENWICH***Are economic conditions and the housing market in Fairfield County improving, stable or deteriorating from last year?***

I see positive signs of the market slightly improving but I remain cautiously optimistic. Data is saying the worst is over, delinquent mortgages have topped off, smart money investors are looking at real estate and pending home sales are up from last year.

What are you currently building or remodeling & where?

Our latest cutting-edge project, The Performance House, is currently underway. Located in Old Greenwich, CT, the Performance House is a new construction project intended to acquire NGBP, Builders challenge, Energy Star and LEED for Homes certification and to showcase a number of energy efficient and green building features and products. Check out www.ThePerformanceHouse.com for updates.

What is your view of next year's outlook for your company?

We are looking to put our energy efficient spec project on the market in the spring and sell it by mid year. We are currently working with some clients to build a custom house that we will start next year. Simultaneously, once our spec house sells, we will look for our next project and work at getting plans and permits, which takes approximately six months. So our next spec project could start at the end of next year if all goes according to plan.

Waiting for conditions to get better is not necessarily a good strategy, so what are you doing?

The building industry will rebound, and when it does builders will be facing stricter building codes and 3rd party performance testing, I have been taking courses around the country to stay ahead of the learning curve. My certifications are Certified Green Professional (CGP), Certified Aging in Place Specialists (CAPS), Certified Graduate Builder (CGB) and a Graduate Master Builder (GMB) from NAHB. I was one of Connecticut's first Accredited Verifiers for the (NGBP) National Green Building Program. I am also a Certified HERS Rater, (BPI) Building Envelope Professional, (BPI) Building Analyst Professional and a certified Thermal Infrared Thermography. In addition, I am a teaching instructor for (NAHB) Green Building for Building Professionals and Advanced Green Building & Building Science Courses.

Have you found any pockets of opportunity?

With a growing elderly population, "Aging in Place" and energy efficiency are both pockets of opportunity for builders. I am putting all of my energy efficient knowledge into our current project, and feel that this is were the building industry is headed.

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THE NEW NORMAL*(Continued from page 13)****Are you diversifying, downsizing your homes and/or your margins, diversifying or finding new ways to be leaner or more productive?***

We are differentiating ourselves from other builders by building 15%-30% more efficient, more sustainable and healthier homes than current state building code. Increasing insulation levels and creating a tight air barrier allow us to downsize the heating and cooling equipment of the home. The result is a more comfortable home with lower utility bills.

Are you looking for or have you bought land this year?

We bought an older home in Old Greenwich, CT in a great location and took it down. Financing with the banks has been very difficult and we are currently using private financing for our project.

GREG UGALDE- T&M BUILDING COMPANY, TORRINGTON

Are economic conditions and the housing market in your county improving, stable or deteriorating from last year?

There has not been much improvement, if any. There are scattered sales at certain sites, but others seem to have slowed down.

What are you currently building or remodeling & where?

We had good luck in Cromwell and plan to continue building there at another subdivision. We hope our new community (*we took over the Detriech subdivision, now without the age restriction*) in Ellington. We continue building in Bloomfield and East Granby, and hope to push Torrington and finish Windsor Locks. We have a small GFU subdivision in Southington also, and scattered sites in West Hartford.

What is your view of next year's outlook for your company?

We are trying to find price points to move product at our sites, while always looking for new land acquisitions that make sense.

What is your strategy to deal with this down market?

Some of our current strategies include smaller, open floor plans, which include first floor masters. Our new creative product can blend nicely in our traditional neighborhoods with our standard colonials. The thing that Steve and I have done is we have kept our personnel. Our subs are not as busy, but we do our best to find them work as well.

Are you diversifying, downsizing your homes and/or your margins, diversifying or finding new ways to be leaner or more productive?

A key to our success is our ability to adapt. We try to structure land deals so they make sense to seller and buyer, and then we do our best to find a product that will be successful in each market.

Are you looking for or have you bought land this year and how are you financing it?

Yes, we have acquired land this year, and continue to look. We have used different methods to finance our efforts. A credit line, self-financing, and even structured deals where sellers stay involved in the deal to share in the long run.

Connecticut Builder ended the survey with national builder, Toll Brothers, who is very active in Connecticut.

GREG KAMEDULSKI – DIVISION PRESIDENT- TOLL BROTHERS INC.

We do not make it a practice to comment on the state of the market, or predict how the market will be in the future. Having said that I can give you short synopsis of the communities we are = selling and building in the state:

- **RIVINGTON** in Danbury: mixed product in a master planned community with a total unit count of 1,000. Opened for sale in February, 2011. Four decorated model homes to be grand opened in September.

(This project was the Union Carbide headquarters, which was purchased by local builders and sold to WCI Communities, who developed some housing before filing for bankruptcy. Toll Brothers purchased the project in 2011.)

- **SUMMIT AT BETHEL** in Bethel: Age targeted attached townhome community with a total unit count of 223. Opened for sale in April 2010. Five decorated model homes have been grand opened.
- **BETHEL MEADOWS** in Bethel: Market rate townhome community with a total unit count of 62. Opened for sale in August 2008 and all units sold by December 2010.

WEATHERSTONE OF AVON in Avon: Single Family home subdivision with a total lot count of 24. Opened for sale in July 2011. One decorated model will be grand opened in January 2012.

REGENCY AT PROSPECT in Prospect: Age-restricted townhome community with a total unit count of 366 units. Opened for sale in June 2007. Four decorated models have been grand opened.

ESTATES AT WALLINGFORD in Wallingford: Single Family home subdivision with a total lot count of 29. Opened for sale in April 2011. One decorated model will be grand opened in October 2011.

OLD MYSTIC ESTATES in Stonington: Single Family home subdivision with a total lot count of 46. Opened for sale in June 2011. One decorated model will be grand opened in January 2012.

In addition, we have several other properties that are currently in the planning stages. We are also very actively looking to acquire other properties, and I have two people devoted to land acquisition.

GOING FORWARD

National builders have their own set of problems, but financing land acquisition and construction isn't one of them. They are publicly traded and banks are anxious to lend them money. On the other hand, small local builders know their market and are part of the communities in which they build. That and their hands on approach are valued by local officials and many homebuyers.

Going into 2012, the small Connecticut builders we talked with

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are optimistic, or at least hopeful. Their gut instinct is that next year will be a little bit better than this year was.

“I am finding that our reputation, which we worked so hard to obtain over many years, is absolutely helping us to land deals in these challenging times,” said Hartford County builder, Bill Ferrigno. “People want to know who they are dealing with and to feel comfortable with a sound, quality builder.”

But suppose there’s no upturn next year? What if today’s conditions are the new normal—for who knows how long? Says one builder, “I don’t think waiting for things to get better is a really good strategy. You play with the cards that you’re dealt. And that’s how we approach it every day.”

NOTE: According to the Associated Press, in September, Toll Brothers Inc. reported that its fiscal third-quarter net income rose 54 percent nationally, partly helped by a tax benefit. But the nation’s biggest luxury homebuilder narrowed its full-year home delivery outlook, as market conditions remain unstable.

“This past quarter’s results indicated some continued stabilization in the upscale housing market, albeit at a level dramatically below historical levels,” CEO Douglas C. Yearley Jr. said in a statement.

Revenue dropped 13 percent to \$394.3 million from \$454.2 million, missing Wall Street’s \$409.2 million estimate. Home deliveries fell 14 percent to 693 houses, while net signed contracts rose 2 percent to \$406.7 million. The average price of net signed contracts was basically flat at \$570,000. Toll Brothers’ cancellation rate rose to 7.4 percent from 6.2 percent, but the Horsham, Pa. company said that it was consistent with pre-downturn historical averages. Backlog at the end of the quarter was \$1.02 billion, up 8 percent.



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