

Small Builders Join Forces to Compete With the Big Boys

Local purchasing groups enable custom builders to buy in bulk

Back in the 1920s, several independent family-owned grocery-store owners, facing stiff competition from burgeoning nationwide chains such as A&P, formed a union that would give them the same buying power and marketing exposure as their deep-pocketed competitors. That was IGA.

In later years, independent hardware-store owners found that they could stand up to the threat posed by Home Depot and Lowe's by affiliating with co-ops like Ace Hardware and True Value.

Nationwide competition is a more recent phenomenon in the home-building field — but it's here and it's tough.

Land grab. Dan Tingen, owner of Tingen Construction Co., in Raleigh, N.C., noticed the local climate change about five years ago when the supply of available building lots dried up. The shortage wasn't due to scarce land — it was happening because big national companies like Centex, Pulte, and Toll Brothers were snapping up hundreds of lots at a time.

"The larger developers don't want to deal with custom builders anymore," says Tingen. If they can sell 100 lots to the same buyer and close them all on the same day, he says, there's no incentive to negotiate with dozens of small builders, none of whom could buy more than a handful of lots.

So to compete, Tingen and seven other local custom builders pooled their resources and, as a group, purchased 112 lots in the Bedford at Falls River development in North Raleigh.

Today that development is largely built up and the co-op, which has become known as the Bedford Builder Group, has moved on to purchase 470 lots in another local development.

Price club. Of course, the ability to buy large chunks of land is only one of the advantages that big builders enjoy. They also get better prices on materials.

To level the purchasing field, 29 custom builders in the Raleigh-Durham area —

■ High housing prices may be the cause of a drop in enrollment in Florida school districts. The *Wall Street Journal* reports that districts across the state have recorded decreases in numbers of students. Principals and demographers blame the overheated housing market and the conversion of low-income housing to condos; families with children, they say, are being priced out of the market and have been moving to nearby states like Georgia and Tennessee, where housing costs are significantly lower. Districts are also losing teachers. Some are moving, selling their houses for a huge profit; others discover that they can't afford housing when they are offered new jobs in the state.

■ If every home in America replaced just one incandescent light bulb with an Energy Star compact fluorescent bulb (CFL), we'd save enough electricity to light 2.5 million homes for a year. So says the Environmental Protection Agency, which also points out that, over its lifetime, a single CFL can prevent more than 450 pounds of power-plant emissions from being spewed into the atmosphere. More information on choosing CFLs is available at www.energystar.gov.



In the News

including Tingen — came together this year and formed a buyers' club of sorts. With combined annual sales of more than 600 houses, the Triangle Builders Guild, as it's called, has already been able to negotiate favorable pricing arrangements with many local suppliers. Sellers of lumber — as well as of roofing, drywall, millwork, cabinets, doors and windows, and even granite countertops — have signed agreements to provide the same reduced prices to all members of the guild.

Ward Russell, owner of Legacy Custom Homes and chairman of the guild, is quick to point out that the suppliers also profit from this arrangement. "A large percentage of our vendors were very excited to find out that they could post their prices on our Web site and free up their salespeople from the tedium of pricing individual jobs all day long," he says. Of all of the suppliers who were offered the chance to sign on as preferred vendors, he says, "we haven't had anybody yet who said no."

Beyond the material advantages, guild members profit from the opportunity to network and share business ideas. Russell also sees the arrangement as a chance to create a brand that sets guild members apart from typical home builders. "We're a group of builders who have a high standing in the community," he says. "We're financially sound, we pay our bills on time, we care about our product. If you buy a house from us, we're going to be here in 10 years."

Ready guidance. One reason the Triangle Builders Guild has been able to get up and running so quickly is that the members didn't have to go it alone.

About 10 years ago, 50 custom builders in Northern Virginia teamed up — at first on an informal basis — to

negotiate bulk purchase agreements with suppliers. As their system became more refined, these builders started fielding requests from peers in other parts of the country for help starting up similar organizations. Two years ago, 10 of the original members decided to form a consulting company, Custom Builders USA (CBUSA).

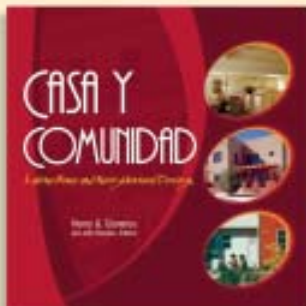
"We've stacked up the lessons learned as to what is feasible and what isn't," says Brian Pavlick, CBUSA's Southeast region manager. At first, Pavlick helped members of the Triangle Builders Guild set themselves up as an independent LLC. Since then, he's worked with them to sign up preferred vendors and to implement CBUSA's Web-based pricing system.

Builder groups who hire CBUSA pay an initial startup fee that varies based on the size of the group but typically averages about \$2,500 per builder. As an ongoing management fee, CBUSA also takes a portion of the rebates that vendors agree to give the LLC when builders pay their bills on time.

Although CBUSA is currently focused on purchasing materials, Pavlick says it plans to add money lenders to its preferred-vendor list in 2007. Longer-range plans include helping client groups buy land, insurance products, and other business services.

In addition to the Raleigh group, CBUSA currently has clients in Wilmington, N.C.; Atlanta; Cleveland; Houston; Orlando, Fla.; Albuquerque, N.M.; and central Indiana. CBUSA expects to have clients in a total of 11 different markets by the end of the year.

For more information about CBUSA, visit the company's Web site at www.cbusa.us. — *Tom O'Brien*



■ A new book from NAHB, *Casa Y Comunidad: Latino Home and Neighborhood Design*, provides insights into what Latino home buyers look for in a home. Latino households tend to be younger and larger than their non-Latino counterparts, and contain more workers. Latino families are often multigenerational and prefer houses with plenty of bedrooms, including ground-floor suites for elderly members. The book's authors advise builders interested in tapping this market to be prepared to address the financial needs of Latino home buyers — by helping with financing, for instance, and by offering cost-cutting alternatives.

Schwarzenegger Signs Lead-Free Bill but Flushes Low-Flow Plan

This year was a nail-biter for plumbing manufacturers as two bills worked their way through the California State Legislature, each threatening to dramatically alter the nature of the fixtures that companies are allowed to sell in the nation's largest state.

On September 30, Governor Arnold Schwarzenegger signed into law assembly bill 1953, which slashes the allowable lead content in pipes and plumbing fixtures from 8 percent to 0.25 percent.

"Protecting public health is a top priority," said the governor. "I signed this bill to reduce the amount of lead exposure in California's drinking water. We need to make sure that the water we consume is safe for everyone, especially our children."

Although concerns about technological readiness didn't dissuade the governor from signing the lead bill, they did influence his decision on low-flow toilets.

Industry response. The Plumbing Manufacturers Institute (PMI), a national association of plumbing product manufacturers, which opposed the bill, denies that existing fixtures pose a health threat.

"The basic premise that there's something wrong with faucets is incorrect," says Barbara Higgins, executive director of the association. She notes that faucets in this country already undergo rigorous performance-based testing (in accordance with the NSF 61 product-safety standard) to ensure that the water that comes out of the faucet is safe.

What's more, while conceding that relatively simple devices like water meters can be manufactured with lead-free brass, the group claims that the technology needed to re-engineer complicated fixtures like faucets does not yet exist.

"A very small amount of lead is an essential ingredient to manufacture brass fixtures that resist leakage, corrosion, and everyday wear and tear," says Dave Viola, PMI's technical director. Viola argues that an entirely lead-free faucet would need to be made out of plastic or stainless steel — and each of these materials, he says, has serious performance disadvantages.

Adds Higgins, "Contrary to what the authors of the bill said, there are no products on the market today that are manufactured to comply with this formula. And it's uncertain what alloys or combination of materials can be used in the future as a substitute."

The new law is scheduled to go into effect in 2010.

More testing for low-flow. Although worries about technological readiness did not dissuade Schwarzenegger from signing the lead bill, they apparently had influenced his decision a few days earlier to veto assembly bill 2496, which would have limited maximum water consumption for all newly installed toilets to 1.3 gallons per flush (0.5 gallon per flush for urinals).

"Before imposing new mandates on builders and homeowners, we must conduct a thorough study of the new technology to determine its readiness for widespread use," said the governor in his veto statement.

"A number of questions have arisen regarding the toilets required by this bill," he added, "including whether sufficient laboratory testing has verified compatibility with existing plumbing infrastructure."

Water conservation specialist John Koeller, of Koeller & Co. in Yorba Linda, Calif., pooh-poohs the governor's misgivings. "The plumbing industry has done a miraculous job in engineering toilets that are superior performers," he says. Koeller points out that 17 different manufacturers currently offer a total of 95 models of toilets that would comply with the bill's requirements. "Feedback from satisfied customers," he says, "as well as our own maximum-performance testing [see "Toilet Testing Flushes Out Lax Performers," *In the News*, 9/06], indicates clearly to me that the technology is ready for the marketplace, without a doubt."

The governor recommended that this issue be handed over to regulators at the California Building Standards Commission, who he suggested were better qualified than the legislature to determine how the state should promote water-saving technology. — *T.O.*