



Look for Profit in all the right places
Back on Track



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For more information on Builder Partnerships, visit our website:
www.builderpartnerships.com

We have been more
concerned about SURVIVING



...than profitability.

Early Warnings

- In March 2003, cautioned builders to be proactive
 - Develop a strategy for survival
 - Didn't know when but it was going to happen
- In February of 2005 I gave a presentation entitled:
“Are We Sailing on a Tsunami?”
 - We were going to have a substantial housing recession
 - Housing recession began in spring of 2005.



Free Fall since January 2006

- Housing activity is down 71% from the peak in January of 2006
- Housing prices are down 20.31% from the peak according to the Case-Shiller home price index.



Helping builders to survive



- Survival seminars
- Webinars
- Articles
- Banker negotiations
- Efforts to liquidate land and home inventories

Strategy

- Develop a “Survival Plan of Action”
- Get their financial house in order
 - Horde cash
 - Cash flow and liquidity before profit
 - Sunk costs are gone
 - Land deposits
 - Land equity
 - Speculative home profits
- Diversify your financial institutions
 - Don’t put all your eggs in one basket



Finance / Assets

- Don't hide from your bankers
 - Can't communicate enough
 - Develop "Project Business Plans" for each project
 - Renegotiate loans before they are in trouble
- Get rid of spec homes and land inventories
 - They are a drag on company
 - Holding costs are killers
 - Turn them into cash
 - Get out of debt



Operations

- Trim Overhead
 - Need to maintain a balance with volume
 - Work on efficiency, effectiveness and discipline
- Maintain Caution
 - Still need to maintain survival tactics during 2009



Beginning to reach the bottom of the cycle



Everyone is pessimistic

- Housing Market Index plunged to 9 in October
- Foreclosures are up 25%
- Consumer confidence has largest monthly decline in history
- Home prices continue to slide
- Housing starts and permits fell to lowest levels on record
- Approximately 10 months of supply on new and existing homes



Underlying facts

- Home buyers came back to existing home market in August
- New and existing homes sales are stabilizing
- Mortgages
 - Rates have fallen
 - Becoming more available
- Bulk of sub-prime adjustments occurred in 2007/2008



More Underlying Facts

- Fed rate cuts stem 2009 foreclosures
 - Refinancing of ARM's
 - ARM resets may actually reduce rates
- The absolute number of new and existing home inventories has reduced
 - Existing down about 500,000 from peak
 - New home inventory down over 100,000 from peak



Signs of Recovery Emerging

- Since beginning of year have been getting good news from builders across the country
 - Traffic has increased
 - Serious buyers



2009: Transition Year



- Single family starts will bottom at 450 to 500 thousand
- Housing prices will fall back to the 2002/2003 pricing levels
- Market will stabilize at bottom
- Not going to see a very quick resurgence
- Can begin to plan for profitability

Become Profit Oriented



- Establish a profit objective
 - You need a target
 - Obtainable
 - Motivational
- Focus on items within your control
 - Pricing of homes
 - Controlling construction costs
 - Maintain appropriate operating expenses for planned sales volume

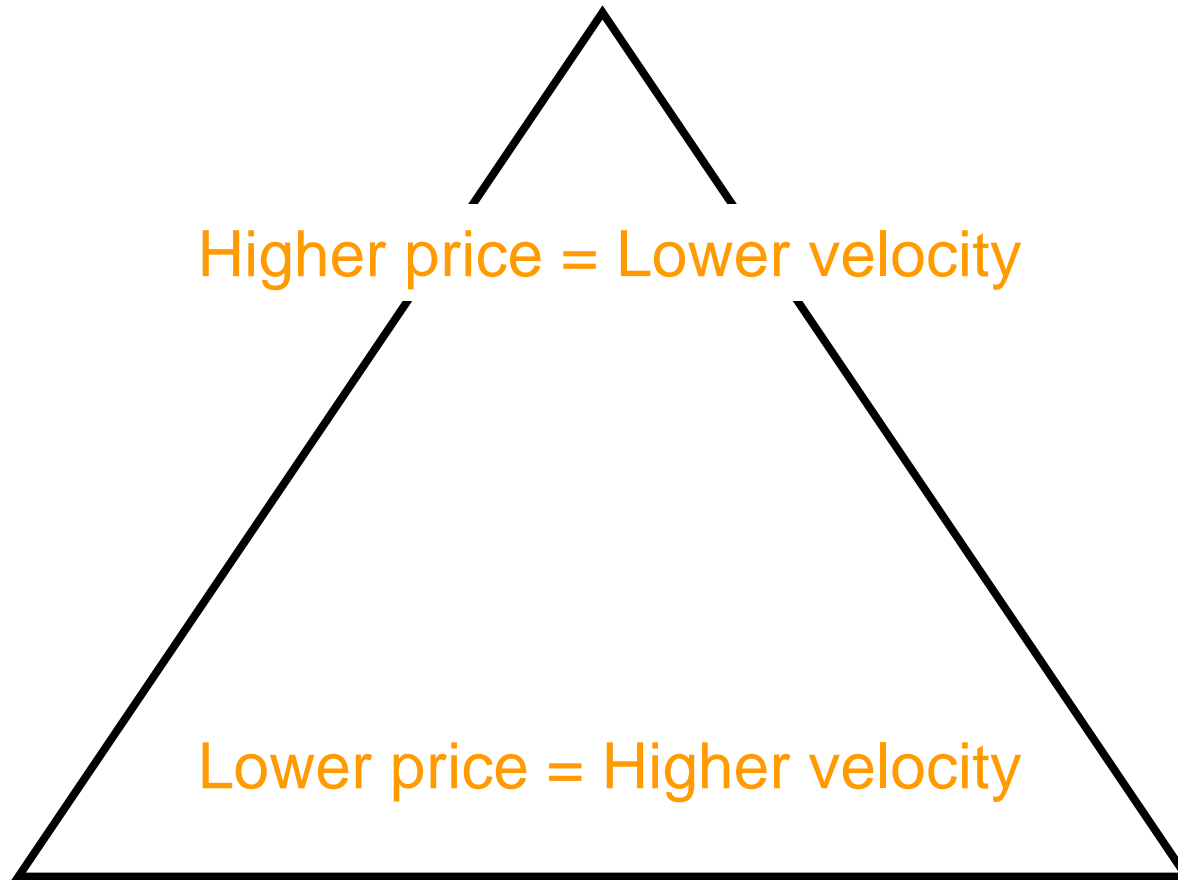
Components for Good Profits



- Sales velocity
- Sales price
- Costs of construction
- Operating expenses

Affordability Triangle

Sales Velocity



Functions in all price ranges

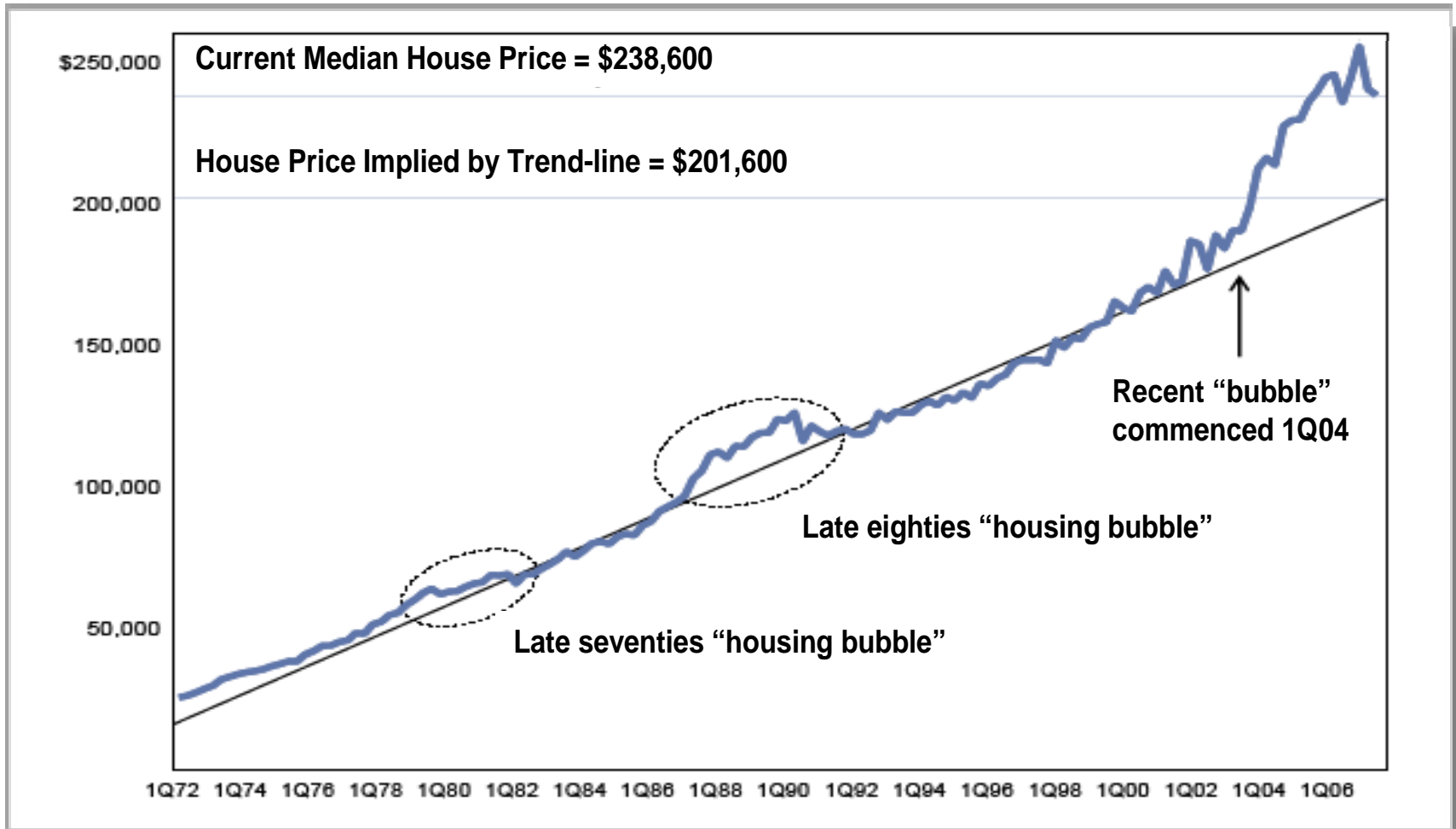
Affordability Deteriorated

- Sales Price moved up the affordability triangle
 - Home value to household income
 - Home value to rental rates
- Loss of extremely lax and creative financing
 - Easy qualifiers
 - Low down payments
 - ARM's
 - Teaser loans
 - Interest only
 - Piggybacks



House Prices Compared to Long Term Trends

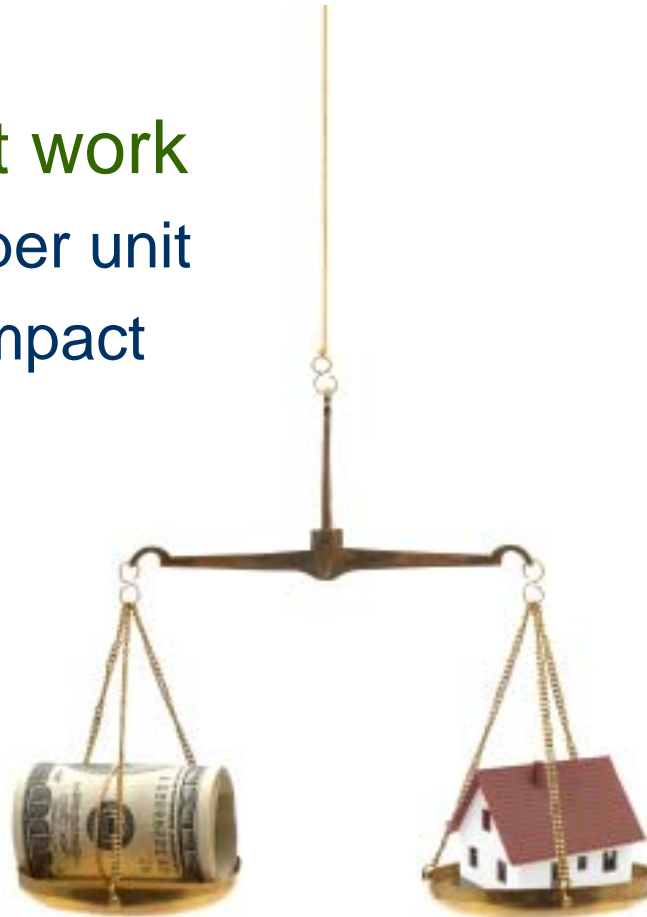
1972 - Sep 2007



Source: Goldman Sachs

Decrease Price to Create Velocity

- Most communities need at least three sales per month
- Discounting doesn't work
 - Reduces net profit per unit
 - Generally doesn't impact velocity much



Establish target sales velocity (for each community)

- Return on investment
- Viability of community
- Fixed expenses in community
- Activity levels necessary to motivate
- Production capacity



Sales Price

- Market sets the sales price range
- Builder modifies sales price marginally
 - Impacts sales velocity
- Set base sales price to obtain appropriate velocity
 - Market research
 - Appraisers
 - Realtors
 - Multi-Listing Service



Setting Sales Price

- Sales price may need to be set below market
 - Prices are still falling
 - Need to drop to history trend line (see Exhibit II)
 - Price to be competitive with resales
- Sales Price and Velocity
 - Generate revenue
 - Revenue – (costs and expenses) = NET PROFIT





Planning for Profits

	Factor	Budget
Sales Price	1.0000	\$200,000
Profit	0.1000	20,000
Land	0.2000	40,000
Financing	0.0400	8,000
Marketing	0.0600	12,000
Indirect Construction Costs	0.0300	6,000
Warranty	0.0050	1,000
General & Administrative	0.0450	9,000
Historical Slippage	0.0200	4,000
Total Direct Constr. Costs	0.5000	100,000

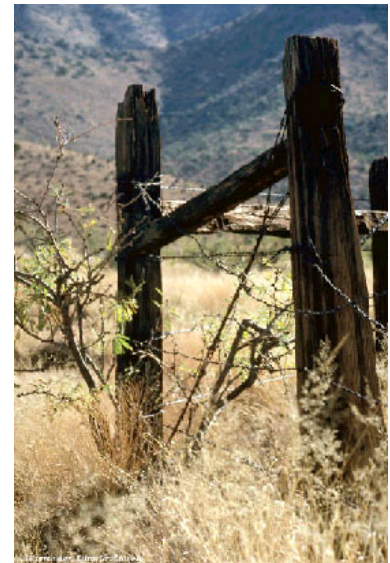
Don't Sacrifice Profits

- DO NOT treat profits as a residual
 - Establish a target profit rate
 - Profit is the objective
- Set market sales price for velocity
 - Not a variable
- Deduct your target profit – **FIRST**
 - NOT negotiable



Deduct Fixed Costs

- Deduct land cost (builder retail)
 - May need to adjust land price to current market
 - Deduct operating expense allocations
 - Based on anticipate sales volume
- Deduct historical slippage rate
 - Non budgeted cost - variances
- Deduct warranty expense allocation
 - Historical average warranty expense
 - It is a cost to be planned for



Determine Direct Cost

- Remainder is available for direct construction costs
 - This is the residual not profits
 - Direct construction costs is the variable
 - Need to design and build house for this amount of money
 - Develop target budgets for direct construction costs
 - Trade off direct costs, NOT PROFITS
- Lot and direct construction cost should be about 70% of sales price

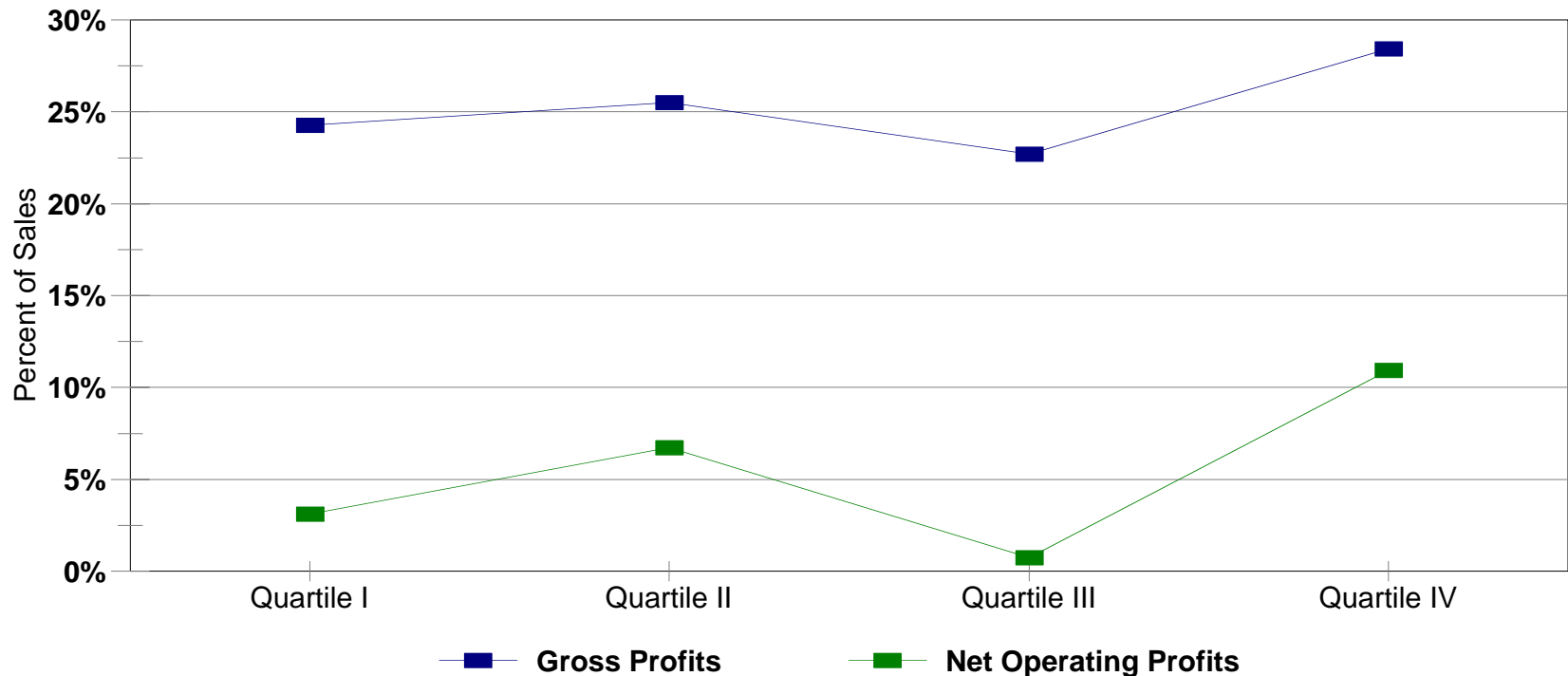
Control Direct Costs

- Greatest potential for increasing profitability
 - Largest classification of costs
 - Normally over 50% of sales
 - Increases marginal rate of profitability
- Gross profit analysis
 - First line of defense for net profitability
 - Can't have good net profits without good gross profits
 - Eliminate lowest gross profit plans
 - Change product mix to higher gross profit plans

Can't have good net profits *without good gross profits*

Relationship of Gross to Net Profits

2007 Financial Study



Analyze Standard Specifications

- Strip standard specification to basics
 - Need to go through at least three times
- Reduce amount of standard specification
- Review quantity, quality, grade and details of standard features
- Change specs from 1st floor to 2nd floor
- Conduct cost/benefit analysis
- Add back items giving adequate returns (maybe)
- Create options and upgrades with rest



Eliminate Waste and Excess

- Trash pile represents lost profit
 - Only tip of the iceberg
- Police job site
 - Messy job sites lead to waste
- Watch for diverted materials
- Return all excess materials for credit
 - Don't move it or store it
 - Get it out of future estimates



Analyze ALL Variances



- Document all fill-in orders and extra work
- Use variance purchase orders
- Determine cause of each variance
 - Use variance codes
 - No miscellaneous category
 - Analyze by reason codes

Eliminate Most Variances

- Variance elimination
 - Variance review meetings
 - Plan review meetings
 - Quality review meetings
- Document actions taken
- Purpose is to eradicate variances



Inventory Material Deliveries

- Make sure everything is acceptable
- Eliminate back orders
- DO NOT accept substitutions



Scopes of work for all trades



- Implement a checklist for trade contractors
- Inspect your expects
- Assure work is complete and accurate

Detailed Scopes of work

- Make sure architectural plans include necessary construction details and material assembly techniques
 - Establish a scope of work for architects
 - Consistent working drawings



Complete review of costs



- Question everything
 - Question engineer
 - Question truss designs
- Analyze construction efficiency
 - Number of corners
 - Two foot modules
 - Roof pitches
 - Wall construction techniques
 - Flooring system

Continuously evaluate costs

- Continually look for new and alternate materials
 - Maintain open lines of communication with suppliers and trade contractors
- Implement material saving techniques
 - Get the whole team involved
 - Designers,
 - Engineers,
 - Superintendents,
 - Trade contractors,
 - Suppliers)



Conduct as-built audits

- Home is built right
- Assure material used as intended
- Instruct workers in proper use of materials
- Most popular plan tends to get fat



Improve estimating and purchasing

- In-house detailed quantity survey estimating
 - Get the fudge out of the bids
 - Most builders do not have the talent
- Competitive bid on unit prices, NOT job
 - Don't need to continually get bids
 - Simplifies data base maintenance
- Develop a unit price database
- Implement formal purchasing procedures
 - Use written P.O.'s
 - Use written variance P.O.'s
- Processed prior to order or work
 - Pay from purchase orders not invoices

Work with trade contractors

- Reduce number of trips
- Eliminate dry runs
- Help them improve efficiency
- Work with them on reducing costs
 - Alternate materials
 - Alternate construction techniques
- Establish a trade council
 - They are an integral part of **YOUR** team
 - Representative from each critical trade
 - Monthly meetings



Controlling Operating expenses

- Indirect construction costs
 - Watch your staffing levels
 - Keep superintendents at optimum number of homes per cycle
 - Reduce construction cycle times
 - Reduce dry runs and repeat trips
- Financing expenses
 - Reduce amount of unsold inventory
 - Maintain construction schedules
 - Control points and closing costs offered customer

Operating expenses

- Marketing expenses
 - Target advertising and promotion expenses
 - Develop a public relations program
 - Watch your model home expenses
 - Decorate models to sell homes, not win awards
 - Establish a viable referral program

General & Administrative Expenses



- Watch your staffing levels
- Improve your management systems
 - Flow chart processes
 - Establish standard procedures
- Invest in systems before hiring staff
- Investigate out sourcing services
- Use the internet

After three years of talking about survival tactics, it is a pleasure to be discussing profitability again.



2009 will not be an easy year but it will be a year of stabilization and a return to normalcy.

We can again plan for profits.

Best of Luck!

Questions & Comments





A widely recognized and well-respected leader in *providing support and training to homebuilders and other organizations in the home building industry.*



An agent for its members and associates aimed at *fostering communication and cooperation between builders and manufacturers.*





Featured Services

- Virtual Advisory Board
 - Hourly coaching-consultation with market-tested strategies for your specific, urgent problems
- Customized, quick, reasonably-priced land valuation and / or project forecasts
- In-house customized training programs
- In-depth understanding of home builder operations
- Specific market research / intelligence
- Evaluation of key performance ratios
- Home builder advisory assistance to help clients cut costs, sell houses, and pay off loans
- Assistance in restructuring loans to increase payoff
- Assistance with liquidations or workouts
- Sale of assets

Contact Emma Shinn at eshinn@theshinngroup.com to discuss service options.

Upcoming Webinars

- Market Watch 2009
 - January 30, 11 AM EDT
- Get More from your Current Website
 - February 11, 11 AM EDT
- Financial Impacts: Decisions for Changing Markets
 - February 19, 4 PM EDT

Visit the [Builder Partnerships Events](#) page for more information.

www.builderpartnerships.com





Increase your Returns

- Most manufacturers offer incentive programs but not many builders are taking advantage of them to the fullest extent
- Builder Partnerships offers **over \$2500** in incentives per unit constructed
- Builder Partnerships allows you to focus your efforts on negotiating to get the best price without having to worry about the rebates
- We manage the incentive programs and follow up with manufacturers to collect the money so you don't have to
- For more information on how to join, contact Glenn Singer (glenn@builderpartnerships.com).

BUILDER PARTNERSHIPS

MANUFACTURER ASSOCIATES:



SERVICE ASSOCIATES:





Builder Clients



Shinn Group clients represented by the red dots, blue diamonds indicate Builder Partnerships members

The Shinn Group has over 500 builder clients disbursed throughout the US and Canada. Our clients typically construct between 50-2000 units annually. They build across all price points. Many of our builders are repeat award winners and leaders in their respective markets.

Through Builder Partnerships, we represent over 100 builders constructing approx. 25,000 units annually across the US and Canada