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The GIANTS
Housing Flexes Its Muscle





Movers and Shakers

Within the Giant 400, a few stand out, by climbing rapidly through the ranks or staking claim to strategic high ground.

By Bill Lurz, Senior Editor

Pay attention. Pay specific attention to Lennar Homes. Regis Homes. Morrison Homes. Newmark Homes. Brookfield Homes. The Estridge Companies. Crossman Communities. ALH Holdings. The leaders of these companies are dedicated to changing the future of the housing industry—each in their own profound way. We tell their stories here for the lessons offered by each apply to every business at any stage of development. We'll say it one more time—pay attention. They are talking to you.

Lennar Redefines Bigness

We've seen big before, but never *this* big.

A decade ago, Centex topped the Giant 400 with \$2.29 billion in 1990 home building revenue. Then the billion-dollar club had seven members. Last year, Pulte was No. 1 with \$2.95 billion and 13 builders topped a billion bucks in 1998 revenues. But when No. 5 Lennar recently announced it will close later this year on the purchase of No. 8 U.S. Home Corp., the Miller family's Miami-based juggernaut suddenly made this year's ranking nebulous.

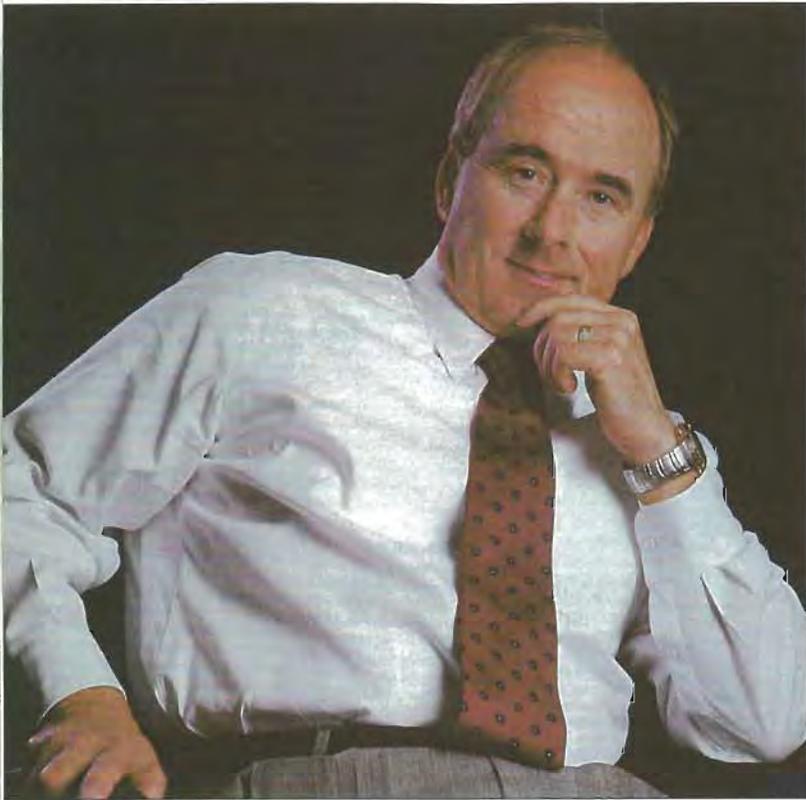
Uneasy rests the crown as Pulte ends the 1990s on top with \$3.84 billion in 1999 dollar volume, but with the knowledge that Lennar and U.S. Home combined to deliver 21,658 homes for \$4.9 billion last year. What will this new behemoth do in 2000?

Lennar president and CEO Stuart Miller says the merger is immediately accretive to earnings and the management and cultural fits promise a *better* company, not just a bigger one.

"Our resulting size provides valuable benefits from both operational and financial market perspectives," says Miller. "While we both have a significant presence in Florida, Texas, and Arizona, U.S. Home brings a substantial presence in Denver,

The Lennar/U.S. Home brain trust includes (from left) Stuart Miller, Isaac Heimbinder, and Robert J. Strudler. "Our resulting size provides valuable operational and financial benefits" says Lennar president/CEO Miller.

Photo by John Blakemore



"Our warranty innovations are not motivated by defect litigation concerns. It's just the right thing to do."— Regis Homes president Joe Richter

checks, the sky's the limit for Hochberg.

"I formed Spectrum 16 years ago to build custom, high-end product," he says. "About ten years ago, we saw an opportunity to do lifestyle communities in the northern suburbs of New York City. No one was doing them here, because the land was so expensive. We felt that with our local knowledge and contacts, we could find the land and get entitlements for *small* lifestyle communities of 50 to 100 units."

Hochberg did exactly that, but as Spectrum grew, Hochberg found himself spending most of his time searching for equity for his planned communities. "I got in this business because I'm a good developer and builder. I enjoy creating product. I didn't want to spend my life looking for money."

Enter Skanska AB, a Swedish conglomerate that does business in 80 countries. Skanska's U.S. subsidiary is headquartered 10 minutes from Hochberg's office. On one of his equity searches, he paid a call.

"Over the course of a year, Skanska acquired us," says Hochberg. "Spectrum had a great brand name in New York as a builder. Skanska wanted to increase awareness of its brand here in the U.S. Hence the name, Spec-

trum Skanska. We are now a very small part of their business, but disproportionately high-profile. We've both benefited.

"In the three years before Skanska, I spent 65 percent of my time looking for financing. Now it's zero," says Hochberg.

Spectrum has taken off, doing larger projects like Bellefair, in Rye Brook, N.Y., the New York market's first neotraditional town, a short 30-minute drive north of Manhattan. The company followed it with Legend Yacht & Beach Club, a gated marina community in Glen Cove, N.Y., priced at \$850,000 to \$2 million. "Most of what we do now is very high-end."

With Skanska behind him, Hochberg is venturing farther from New York, to do second home/resort projects in the Poconos in Pennsylvania and even the Berkshires in Massachusetts. "We made our reputation building for empty-nesters, and baby boomers are now aging into second-home buyers."

Hochberg says Spectrum Skanska will hit \$200 million in sales this year, and \$250 million within three years, but he's getting cautious. "We don't think the market will support exponential growth.

Right now, we have nothing in the pipeline more than four years out."

Regis Homes Ups Ante On Quality

Orange County, Calif., builder Joe Richter is setting benchmarks for commitment to quality and customer service that the whole housing industry might be well-advised to emulate.

Richter is president of Regis Homes, the Southern California housing division of Sares-Regis Group. That Irvine, Calif.-based, multi-faceted real estate and construction firm is 99th in this year's Giants rankings (up from 128th last year) based on total housing revenue of \$143.9 million. Besides Richter's operation in Orange County, which closed on 113 attached and 70 detached homes last year, there's also a smaller for-sale housing division in Northern California. But it is Richter who is raising the bar on quality.

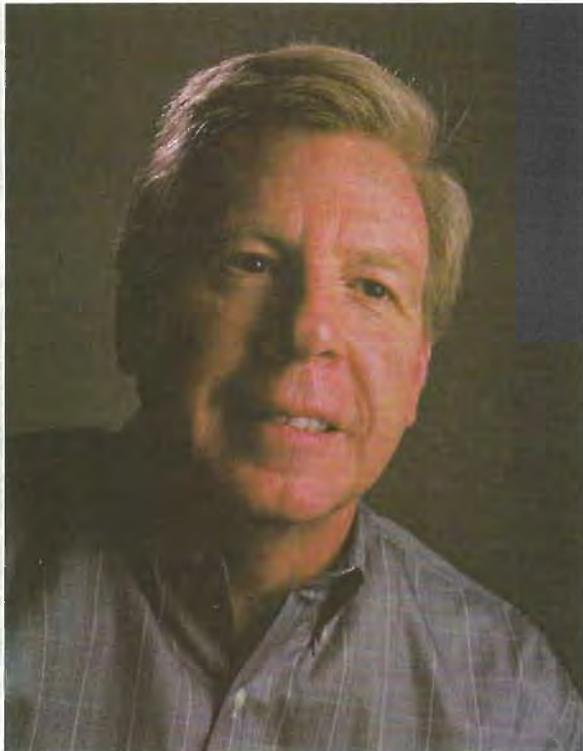
Regis recently extended its new home warranty from one to two years on single-family detached homes, to three years on attached units, and to five years on high-density condo flats. In addition, Richter created the new position of asset manager, a person responsi-

ble for working with home owner associations in Regis developments for *five* years after the last unit is sold.

All this in a firm that in 1991 was among the first to hire third-party inspectors to check each phase of the home building process. Such inspections are now the norm in Southern California, where construction defect litigation is rampant.

Regis' high quality control standards are one reason the firm has avoided construction defect litigation. Now Richter is raising the bar even higher.

"I was a custom builder for many years before I went into production housing," he says. "When I made that switch in the 1980s, I was appalled at what I saw on production job sites. Buyers do not hold us to a lower stan-



"TND is becoming an important factor in the market and we're in a strong position to benefit."— Stewart Cline, Morrison Homes

dard just because the houses are production-built. Our warranty innovations are not motivated by defect litigation concerns. It's just the right thing to do."

Richter calls the time under coverage a "customer service period" rather than a warranty period. "We're still taking calls on houses we built three years ago, so extending a written commitment to two years is not really so radical," he says. "We're just telling people in our single-family communities that we will be there to help them for two years. I think the commitment, and

the creation of the asset manager position, will be the key to being in business ten years from now."

The asset manager will be a one-person, stand-alone department, not part of the construction, sales, or even customer service departments. This person will attend home owner association board meetings as a representative of the builder, but have no voice in the proceedings. "He will act as an observer, a note taker, and develop an action list of corrections requested by the HOA from the builder," says Richter.

Morrison Leads The Charge To TND

As no-growth initiatives and smart-growth referenda pop up from one end of America to the other, more and more developers (not to mention elected officials and planners) are turning to Traditional Neighborhood Design. Their hope is that a nostalgic New Urbanist village will have some political viability when nothing else does. This state of affairs catches many builders flatfooted, with nary a plan in their product portfolios to fit a 60-foot, alley-loaded lot.

Many...but not Morrison. Alone among the large, publicly-held builders, Alpharetta, Ga.-based Morrison Homes has staked a claim to TND. Ready, willing, and able to appear on a moment's notice, with a portfolio of market-tested, top-selling house plans, Morrison gets a foot in the door where others fail.

The firm decided to pursue TND when Disney invited Morrison into Central Florida's landmark Celebration, that most famous of all neotraditional developments, nearly four years ago. The logic is easy to read: if you're getting into that game, why not learn something you can use elsewhere.

At No. 30, Morrison is not pounding out product with the big boys in the billion-dollar club. The firm sold 2639 houses in 1999, for \$518.5 million in revenue. That's 107 more houses, and \$80.3 million more in revenue than the previous year. Yet Morrison actually lost ground, dropping from No. 28 last year. Never mind. We think they've staked out a valuable franchise in the TND high ground that will serve them well on the bottom line as well as the top.

"Since we position ourselves as something of a design leader, our product is not quite as value-driven. So our absorption rates are a little lower and our build times a little longer," says Morrison president Stewart Cline. "But we get a little more margin.

"We spend more money on architecture than most other public builders, so, yes, I think we do get the first call when someone decides they need TND product. We're in nine TND communities now, and the pure, alley-loaded product is about 12% of our sales. We do another 15% of sales in what I would call modified