

+ The Colorado Homebuilding Academy and the hunt for labor

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Building up the industry's reputation among consumers is critical to solving today's challenges

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Building up the industry's reputation among consumers is critical to solving today's challenges

BY DANIELLE ANDRUS

Colorado *Builder* gathered with a panel of industry representatives just before Christmas for a wide-ranging discussion on the builder industry and its myriad challenges. The group comprised several builders and partners, who each brought their perspective on what 2018 will bring for builders and their customers.

From left to right: David Baltz, Phoenix Framing; Dave Jackson, Jackson Design Build; Jason Brown, Ascent Builders; Scott Moberg, Joyce Homes; Stephanie Beninati, Strategic Insurance Services; Brian Workman, Blind Corners and Curves.
Photos: Povy Kendal Atchison





The condo problem

There's an opportunity for creative legislators to address two major issues in Colorado for the builder industry and for homeowners: construction defect reform and affordable housing.

Construction defects and affordable housing are intrinsically linked. Condos are a key part of young consumers' ability to build equity and be financially successful, according to Brian Workman, president of Blind Corners and Curves, and a member of the Construction Resource Group (CRG). However, concerns about defect suits have stifled construction in that sector.

"When you look at stepping into ownership of a house, a condo is a defined way

to do that in most markets, and it's not in Colorado," Workman said. He believes that there's "a large coalition of people who care a lot about affordable housing who would find ways to make this a part of their issue."

Unfortunately, none of the panelists could name a legislator who has been willing to step up as an advocate for the building industry.

Instead of homeowners and builders working together, conflicts over construction defect reform pit them against each other.

Consumers are laboring under the impression that builders are getting rich off shoddy work, but as Scott Moberg, presi-

dent of Joyce Homes and 2018 president of the Home Builders Association of Metro Denver, pointed out, "margins are smaller now than they were three or four years ago."

Dave Jackson, principal at Jackson Design Build, noted that his margins are half of what they were in 2005.

Getting more affordable housing options built means educating consumers about why that isn't already happening, and getting them to advocate for change, according to Jason Brown, president and co-founder of Ascent Builders, and vice chair of the HBA of Metro Denver's Custom Builder and Remodeler Council.

Brown said, "The consumers have to get behind this and understand that if you

'The people who are purchasing these products have to fully understand the extent of what happens when you take a builder to court and sue them for \$10 million.'

—Stephanie Beninati



◀ Stephanie Beninati



◀ Scott Moberg

want affordable or attainable housing, or whatever term you want to use, some of these things are going to have to change. Or we're just going to continue to build single-family detached" homes. (See sidebar, "Affordable vs. attainable," page 32.)

Strategic Insurance Services owner and CRG member Stephanie Beninati believes the builder industry needs to do a better job of educating consumers about what a construction defect suit means for them in real terms.

"The people who are purchasing these products have to fully understand the extent of what happens when you take a builder to court and sue them for \$10 million," she said. "How it plays out when they're awarded that judgment is not necessary beneficial to them."

David Baltz, owner and operations manager of Phoenix Framing, another member of CRG, agreed that consumers need to be educated about the impact a defect suit will have on them, and called for significant reform in how defects are handled.

"Having been in the business for a while and unfortunately been dragged into nu-

merous defect suits, my observation is that there needs to be fundamental tort reform," he said. "Right now, it doesn't matter whether you did a great job or you didn't do a very good job. [Plaintiffs' attorneys] will seek to find the level at which the insurance companies will settle without going to court."

He added, "The homeowners think they're going to end up with a big sack of money, and they don't. In many cases ... they don't end up with enough money to repair the alleged defects."

Baltz said that sometimes a defect doesn't even have to cause any harm. Suits can be brought over a discrepancy between a plan or drawing and the final build; "whether there's actually any structural defect, cosmetic defect, water intrusion or anything else is irrelevant." (See sidebar, "Colorado construction defect legislation," right.)

Brown has also seen defect suits firsthand. Insurance carriers "know what their cost to litigate is, so they know what they're willing to basically write a check for to avoid litigation," he said.

Colorado construction defect legislation

Last year was a good year for builders regarding construction defect legislation, according to Scott Moberg of Joyce Homes, but it wasn't "enough to really swing the pendulum."

President and co-founder of Ascend Builders Jason Brown concurred, adding, "I think we have a long way to go to have real reform that's going to make those of us who do that kind of work sleep better at night."

- In June 2017, the Colorado Supreme Court ruled in *Vallagio at Inverness Residential Con. Ass'n v. Metro. Homes Inc.* against the Vallagio homeowners association, which had amended without consent Metropolitan's declaration requiring arbitration to settle alleged defects, then proceeded to file suit against the builder.

The court ruled that the Colorado Common Interest Ownership Act doesn't prohibit consent-to-amend clauses like the one in the original agreement.

- Colorado Senate Bill 17-156 would have made arbitration mandatory for resolving defect disputes, but was postponed indefinitely by the Colorado House Committee on State, Veterans & Military Affairs.
- Colorado House Bill 17-1279, which was passed in May 2017, requires HOAs to get consent from a majority of homeowners before bringing a suit against a builder for a perceived defect, and to give builders an opportunity to make their case and offer a remedy to homeowners.

However, the bill only requires consent from a majority of homeowners who respond to notice of a potential suit, not the majority of all homeowners in an association.

Beninati added the insurer's perspective. "The insurance carriers should fight harder because once they pay — and the builders want to fight — but once they pay that builder's insurance, [their premiums are] going to double, if they don't get dropped."

Labor loosening just temporary

Labor has been a primary challenge for builders for years, and the panelists agreed that it remains a problem today. However, Moberg noted that he's seeing labor pressure loosening a little.

The National Association of Home

Builders cited data from the Bureau of Labor Statistics that shows the construction industry added a respective 27,000 and 30,000 jobs in November and December 2017. Over the last 12 months, as of January, home builders and remodelers have added 86,400 net new jobs, according to NAHB.

Moberg noted that he's starting to get calls from contractors, especially foundation and drywall trades.

"That's very select contractors," he said, but "it is refreshing to actually have that happening."

Baltz worried, though, that the late-2017 easing in labor supply was just temporary

as large national builders looked for people to help them take care of year-end closings.

"The emphasis is going to shift very quickly from closings to starts, and we're going to see that shortage, that labor difficulty, come right back," he said.

Compounding the labor problem is the uncertainty surrounding immigration reform. Immigration is a significant source of labor for the construction industry. An NAHB analysis of data from the U.S. Census Bureau's American Community Survey (ACS) found that immigrants account for almost one in four construction workers. In Colorado, immigrants account for over 22% of construction workers.

The share of workers born outside the U.S. has increased since the housing recovery began, NAHB found. However, that increase isn't due to more immigrants joining the industry. "Rather, a slow, delayed and reluctant post-recession return of native-born workers underlies the shift toward the higher reliance on immigrants in the construction workforce," NAHB found.

The ACS data includes all foreign-born workers, regardless of citizenship status.

In late January, the White House issued a framework outlining its goals for immigration reform. Among the proposals in the framework are plans to eliminate the visa lottery program, and to allow immigrants to sponsor only their spouses and minor children. Using fiscal year 2016 data, the Migration Policy Institute, a non-partisan think tank, estimates that those changes could reduce the number of new immigrants by one-third.

The Reforming American Immigration for Strong Employment (RAISE) Act aims to reduce legal immigration by 50%. That bill was sponsored by Republican Sens. Tom Cotton of Arkansas and David Perdue of Georgia in February 2017. It has been referred to the Committee on the Judiciary.

The panelists expressed concern that with immigration reform still an unknown, labor will be even harder to come by.

"If we find ourselves in a position where we are looking at immigration policy [that] takes some of the workers out of the workforce, in particular the DREAM Act, what would that do to the local economy?" Workman wondered. "We rely upon some





▲ David Baltz

of those individuals to help us build our houses.”

Baltz suggested that the uncertain future of immigration legislation is already having an impact.

“There’s an increased fear amongst potential immigrants, legal or otherwise, in crossing the border these days,” he said.

Several of the panelists agreed that the home building industry is in need of a makeover. Parents no longer see the industry as an honorable profession for their children, Baltz lamented. “They want their children to be Bill Gates,” he said, but “the opportunity in the construction industry is incredible for people who are not afraid of a little bit of hard work.”

‘Brisk’ market, but challenges exist

Indeed, the panelists were confident about the builder industry going into 2018. Jackson believes high-end markets will stay strong this year, though he expects a dip sometime next year.

He also thinks the entry-level and move-up markets will remain “brisk,” al-

‘The opportunity in the construction industry is incredible for people who are not afraid of a little bit of hard work.’ – David Baltz

though he noted that land is a problem, and inventory is tight in many parts of the state.

Beninati agreed, and added that interest rates will definitely go up this year.

“For every 1% that [interest rates go] up, it bumps you up 10%” in terms of buying power, she said. However, “wages aren’t going up yet. That’s going to be an interesting market if we can’t get wages up to where the prices of the homes are.”

Out-of-state developers are looking to bring more multifamily properties to Colorado, even if they aren’t very large. “I am getting calls from people who are trying to just make 12 units, 15 units,” Beninati said.

Baltz added that he’s also seeing a lot of opportunities for apartment and hotel building. In the residential sector, infill is

the most common type of construction, with developers doing everything from single-lot scrapes to small buildings with as few as four units.

Baltz anticipates that kind of activity will continue for the next 12 to 18 months, and possibly even increase.

Brown cautioned that price appreciation is likely to begin flattening this year.

“I know we’ve all enjoyed some great price appreciation in the market over the last few years. That’s going to plateau a little bit,” he said. However, “I don’t see the costs plateauing.”

Workman pointed to a new trend that could hurt builders in the long run. The past couple of years have seen the number of people moving to Colorado decline, according to the ACS. Net migration last year was 46,626, down from 67,781 in 2015.

“People coming into the state is a huge part of what we’re all looking to make a living off of,” Workman pointed out.

Municipalities, utilities cause their own headaches

Another roadblock builders face is administrative, as a lot of municipalities struggle to get permits through, Brown said. “Whether it’s planning or engineering or even the building departments, I’ve got projects that are upwards of six months behind schedule because of delays of with the municipalities,” he said.

Jackson said that getting utilities to a site used to be his company’s slowest problem; now that dubious honor goes to the city issuing permits.

That’s not because utilities are getting more efficient. Baltz described a charity build his team started almost a year ago that is still working off a generator.

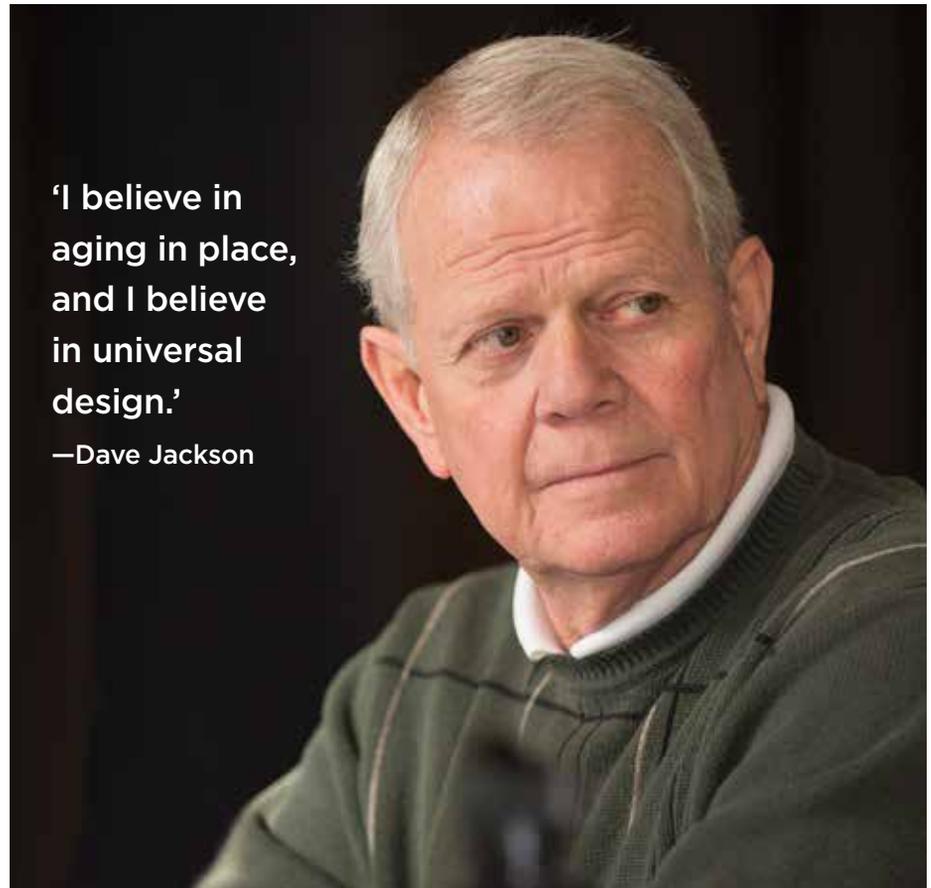
Moberg believes that could be changing soon. “I’ve had some pretty direct contact with Xcel in particular,” he said, and while the company acknowledged backups on infill projects, it is trying to get utilities in at foundations. He’s seeing just that happen in jobs his firm is starting.

That makes sense, according to Jackson. “On the new developments, there’s a pay cycle; there’s revenue for them to go out and build that work,” he said. “In the redeveloped neighborhoods like I’m in, they don’t make any money doing this. They’re working off of aging infrastructure; oftentimes there’s a lot of rework.”

Moberg and Brown are working through

the HBA’s Custom Builder and Remodeling Council to try to ease some of the pressure from utilities.

“The idea is we can have sort of a co-op of smaller builders that can together be the size of a larger builder and warrant dedicated resources from Xcel. Then we’re going to try to do the same thing with Century Link and Comcast,” Brown explained.



‘I believe in aging in place, and I believe in universal design.’

—Dave Jackson

New products, new challenges

As consumer technologies have become more affordable, especially those that help homeowners manage their homes, consumers’ expectations for connectivity have increased.

It doesn’t matter if you’re building a \$200,000 entry-level home or a \$1 million luxury home, “if you don’t have a basic

Affordable vs. attainable

One challenge builders face is semantic. The phrase “affordable housing” may call to mind low-income housing built for people on government assistance. The panelists agreed that “attainable housing” may be a more useful descriptor for the types of housing they’re trying to build to serve a wider swath of consumers and keep the economy moving.

The panelists agreed that owning real estate is how everyday people begin growing wealth. The median listing price for homes in Colorado was \$400,000 as of November 2017, according to Zillow, with median list prices reaching \$464,000

in Denver. Median household income in Colorado is under \$66,000, according to the 2016 ACS, the most recent data available.

“It used to be 25% of a paycheck would go to where you live,” Brian Workman of Blind Corners and Curves said. “Now it’s 40% or 50% just to have a place that you can stay out of the rain.”

He added, “The longer we go without addressing those issues, fewer people can buy homes. The fewer people who can buy homes means all of us have less work to do.”

technology package, ... you've missed something that everybody expects," Jackson said. He builds wire packages into his homes, sometimes up to \$4,000 or \$5,000 on high-end or custom homes, and installs pipes that can act as conduits for future wiring needs.

Jackson also applies that kind of forward-thinking design to help homeowners stay in their homes as they age, leaving space for elevators and building wide doorways, he said. "I believe in aging in place, and I believe in universal design. We try to use a lot of those design influences in our products that a lot of other builders don't. It gives us a little bit of an edge."

That's useful because a long-time buzzword — green building — isn't the differentiator it once was. Now it's expected as a matter of course that homes will be designed with efficiency in mind. Moberg noted that he's seeing a movement growing toward wellness and indoor air quality, rather than green building standards.

Technology is showing up in builders' tools and materials, too. Panelization is increasing-

ly popular, and drones are being used for everything from marketing to security.

Close to a third of window blinds are motorized now, Workman said, and he expects that to grow to over half over the next few years. Windows and blinds will be controlled by apps or respond to changing sunlight throughout the day.

Beyond advanced technologies, the materials builders use are getting more efficient. OSB sheets are available now in lengths that are longer than 10 feet, which helps builders construct more efficient homes.

"You reduce the seams on the house. You increase the efficiency, reduce the air exchanges. You make it stronger," Jackson said.

An alternative to OSB, albeit more expensive, is ZIP System R-sheathing. Baltz said just one of his builders is using it, with clear tradeoffs between cost and efficiency. ZIP sheathing doesn't require house wrap, but workers do need to tape the seams, and there's a risk of over-driven nails leading to defect suits.

Ironically, while technology is usually touted as a way to minimize the labor required to complete a project, some new products, like ZIP sheathing, can actually increase it.

Framing without sheathing requires extra bracing — and extra time. When you're trying to put up walls that are 12 or 16 feet tall, if not more, "all of a sudden, what one guy could do by himself, now you've got three, maybe four guys to put on one sheet," Baltz said. "There are definite advantages to it, but I'm not sure if you're able to boil it down to just the dollars involved."

Time spent on labor is one thing, but it takes time to train workers on new technologies, too.

"All of these new envelope technologies come with a lot of training," Jackson pointed out. "It's a big change so there's going to be a cost curve that is going to increase at first."

He continued, "That's how you have to embrace the new technologies. Generally, there's a cost increase, and then maybe there's a payback later," he said. ◊



◀ Jason Brown