



“Heard at PCBC”

Our management team had the opportunity to attend PCBC 2005 in San Francisco earlier this month. PCBC is one of the premier building shows in the country and had an estimated 28,000 visitors and 600 exhibitors this year. As always, PCBC put together an excellent selection of seminars on crucial issues impacting the homebuilding industry. Our management team took part in these seminars, as Tim Sullivan discussed scenario planning with Bert Selva of Shea Homes and Steve Hilton of Meritage Homes and Peter Dennehy was on a panel discussion about understanding the urban buyer. We also attended a number of other presentations and break-out sessions and had the chance to meet with many of our clients. Below you will find a summary of the things we heard at PCBC this year.



Is There a Housing Market Bubble?

A search on the Google website for news articles containing the words “housing bubble” returned over 2,500 different articles! These are the buzz words of the industry right now and were a key topic of discussion at PCBC. Here is what we heard:

- The consensus at the Leader to Leader session (over 175 participants, including a significant number of division and corporate leaders) was that there is a great deal of economic support to refute a bubble, including strong job growth, high demand, limited inventories, and healthy consumer confidence levels;
- Some Leader to Leader attendees were concerned that interest rate hikes will naturally dampen demand by lowering spending power via higher mortgage rates;

- Ken Rosen shared interesting insights about the capital markets and the presence of foreign buyers in U.S. Treasuries;
- Attendees generally agreed that home prices are moderating and that this “dampening of appreciation” was healthy for the market;
- Conversation focused upon the concern that a “bubble” could burst if some external effect (terrorism, global economic event, etc.) put fear into the marketplace, but the underlying strength in the economy was agreed upon as a buoyant element.



Finding and Keeping Great People

The current real estate boom has made it harder for organizations to find and keep great employees. Strong demand for quality employees results in a more competitive hiring environment and has made it more difficult to retain members of a builder’s team. The following are some thoughts we heard at PCBC regarding finding and keeping great employees:

- Homebuilders are focusing on keeping their people happy through compensation, training, and special “perks.” Steve Hilton, CEO of Meritage Homes, recently brought over 200 of the company’s top performers to Cancun;
- A variety of industry professionals acknowledged that many homebuilders are overpaying to get good people and that this is particularly true with public companies that must focus on meeting revenue projections for Wall Street;
- Some privately held homebuilders are attempting to refine their training and mentoring programs to offset turnover challenges and to insure consistent performance;
- Homebuilders are looking outside the industry to find talented people with different backgrounds and new ideas;
- Both Steve Hilton (Meritage Homes) and Bert Selva (Shea Homes) indicated that finding good employees to grow their business is one of their key corporate responsibilities.



The Expanding Urban Residential Market

A number of seminars at PCBC this year examined different aspects of the urban residential market. Urban housing options are becoming an increasingly popular choice among buyers in big and small locations throughout the nation. Builders are beginning to recognize that the urban market represents an additional product segment that can help grow their business, particularly in land constrained markets. The urban seminars were well attended and it appears that a lot of builders are looking into this product segment. Here is what we heard:

- In-fill development requires an “out of the box” mentality. It is important to build to the location and not to a preconceived product line. It is ok to be a little more “risky” or “edgy” with designs;
- Put a team together that understands urban development. Traditional suburban project managers, construction managers, planners, engineers, and architects are not always the best choice for urban projects;
- Embrace the local environment. Try to fit your project into the local history and architecture and work with the local community to develop a project that is welcomed with open arms;
- It is important to understand that there are many types of urban buyers (including younger singles/couples, families, and move-down buyers);
- Urban buyers want a walkable location, functional space, unique product, and amenities that promote community and services.