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Home Builders Won't Let Exorbitant Construction Costs Stymie Their Success

Guest Columnist

BY TIMOTHY P. SULLIVAN

The classic solution for building reasonably priced homes has been to increase density. Because the price of land became marginally lower as the density went up, this could be translated into lower home prices. But the state of construction costs has turned the economics of this once affordable solution upside down.

With a growing urban market across California and the obvious demand for higher-density living, builders shouldn't have to stop delivering this product just because it has become too expensive. Fortunately, there are some builders who are finding ways to deliver the product at attainable prices.

Steep construction costs - in particular, the higher price of concrete - have begun to weed out marginal projects. But then there are those who are weathering the storm. And these home builders, with savvy and creativity, have one goal in mind: to mitigate price increases.

The Modular Way

Because time is money, San Mateo-based The Castle Group cut down the time it takes to build a home by six months - not only improving their cost structure but also fine tuning the quality of their homes. Referred to as modular construction, entire components of each home are engineered in a manufacturing plant, shipped to the job site and assembled on-site.

"It takes us six days to construct the homes in Boise, Idaho, two days to truck them to the job site, a day to crane them into place and 30 to 45 days to finish them on site to get them ready for the customers," said Chris Kober, president of The Castle Group.

With Cahill Park, their first project that was entirely manufactured (they had manufactured components of their homes before, but not the whole lot), total elapsed time was around three months, compared with the nine to 10 months it conventionally takes.

What's more is that Kober believes his company will compress the three months down to one and a half. So, as fast as buyers can move into the home, they can produce it for them.

Efficiency is at the heart of The Castle Group's strategy.

"Anytime you do something more efficiently and in a logically coherent way, it's going to be less expensive," Kober said.

What the group eliminates from the building process is the inefficiency of subcontractors traveling back and forth.

In many conventional on-site construction efforts, something as simple as a kitchen counter requires the subcontractor to go out to the site, measure several times and make multiple cuts, in addition to having a schedule subject to everybody else's timelines.

"All of that creates tremendous cost, none of which has a sense of worth to the customer," Kober said. "But ultimately the customer does have to pay for it in the form of higher housing costs."

The Triple Threat

Another method to keep prices at bay addresses yet a third force - the first being sky-high land prices and the second is rising construction costs - threatening the building industry: impact fees.

Chief executive officer and president of San Diego-based Barratt American, Michael Pattinson, said, "In the last 18 to 24 months, we've seen the most dramatic spike in material prices in the history of our industry, yet, as far as government fees and regulations are concerned, we've always had a steady drumbeat of ever-increasing burdens placed upon home buyers and builders."

Pattinson pointed to the constant increases in these impact fees, combined with higher land prices and

inflated building materials, that present the biggest challenges to his company. That's why Barratt American, which has a number of higher-density projects in the planning phase, has taken a stand - literally.

Last October, the company had a case - *Barratt American v. the City of Rancho Cucamonga* - before the state Supreme Court, in which it successfully argued that cities should not be allowed to charge ever-increasing fees in one particular category.

"We recognize the problems that these fees cause and over many years, we have challenged these fees quite successfully," Pattinson said.

While Barratt American has chosen to challenge the municipalities as a means to cut their costs, Pattinson said that, in the big picture, in order to continue building in today's climate, builders have to attack the affordability issue.

Whether that's building smaller housing units on smaller lots or using innovative products, the key is to target prices that people can afford.

Optimal Yield

The problem is that when the ratio between maximum density and minimum cost per unit floated around 25 to 45 units per acre, builders thought they were targeting affordable prices. But then the prices of concrete shot up and required the product to sell at more than \$300 a square foot, making the 25- to 45-units-per-acre equation prohibitively expensive for the home buyer.

That's why some home builders and developers are starting to scrap concrete altogether.

"A lot of companies are rethinking the use of wood," said Russ Haley, vice president of CityMark Development, developers of mixed-use residential projects in San Diego County. "The use of wood is a construction method that we will be looking at more heavily in our business model."

For example, where CityMark may have considered going with cement construction before, the company might consider wood-frame construction instead.

What appears to be the optimal density yield - where revenues are maximized, construction costs are minimized and, therefore, home prices are reasonable - are two-story, stick-built homes generally under 20 units per acre.

Driving Quality

Of course, for those planning more than 20 units per acre, the concept of building an urban product in a modular way leaves much to be considered.

Just ask The Castle Group's Kober. Not only does the modular construction concept save the company where it counts - in the pocket book - but the product they're developing is also of superior quality.

"When you make something in a climate-controlled, well-lit environment with steel jigs, laser-alignment tools and all the equipment by your side, you get a better product," Kober said. "And that's been proven in every other consumer product that we touch."

So if it's affordability we're after in the home-building industry, then, in order to maximize efficiency and minimize costs, our industry's challenge is to learn from the processes and technology from other industries and apply them to the urban proposition.

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