



The Newsletter for Profit-minded Builders and Contractors

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Back to Basics: **SPECTacular homes**

by Al Trellis and Paul Sharp

Some builders are strictly production builders. They don't want the hassles of custom building, with its high level of customer hand holding and technical challenges. Others are custom builders – they don't want the risk of building on speculation and they enjoy the challenge of building new designs. But the best of both worlds may be a hybrid of the two positions – the builder who builds a mix of custom and spec homes.

Building a mix of homes allows the builder to expand his client base, smooth his production, and simplify his life. With so much to gain and so little to lose, every custom builder should consider developing a spec home program.

Why build spec houses

1. To make more profit – If you're not going to make a profit, why bother? If done correctly, under the right market conditions, spec homes can be a good source of additional profits. This is especially true if you can build one or two additional homes a year without increasing your overhead.

2. So people can see your product – A good spec home can be used as a short term model home, and many builders always have their next spec home in mind, for just that reason. As soon as they sell their current spec, they start on the next one.

Use spec homes to smooth your construction schedule and increase volume. Never put a great house on a bad lot. It doesn't make the lot more valuable – it makes the house less valuable.

3. Increase exposure – A good spec home can be a source of public relations exposure, or simply exposure through the Realtor community or parade of homes. To get PR, a home must be distinctive, and have news interest. But be careful of going overboard. You still want to make a profit.

4. Minimize client hassles – This is one of the best reasons to build a spec home. As long as you're a good client to yourself, and make timely and reasonable decisions, dealing with yourself can be a lot easier than dealing with a cranky custom client. However, if you have a hard time making decisions, or change your mind frequently, then building specs may be worse than building to other's specifications.

5. Balance production – New custom homes often don't come along exactly when you'd like them to. By building both custom and spec you can keep your crews occupied when they aren't busy with custom homes, and can slack off on specs when the custom side is too hectic. Keeping your crews working keeps their costs down, and keeps them loyal.

6. Sell to a time sensitive market – Some people can't wait for a custom home to be built. They want a new home *now*. This is especially true in markets that have a large labor turnover or a quickly growing economy. If all you build are custom homes you may be cutting yourself off from

this lucrative market.

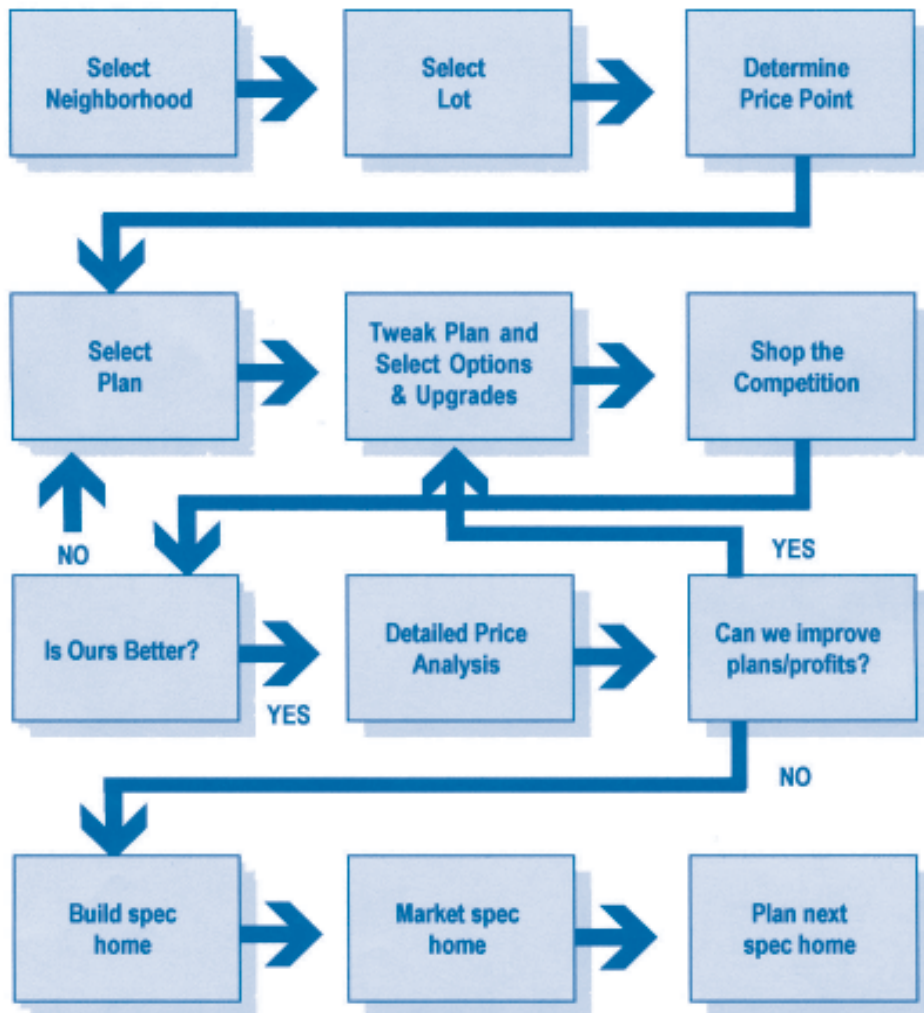
7. Sell to people afraid of custom homes – Certain people can't envision what a home will look like until they're standing in a finished space. These potential buyers are afraid of the custom home process, and the spec house is the only way to reach them.

How many should I build?

How many spec homes you build should depend on both your production capacity and your tolerance for risk. It also depends on the type of market you're in. Mature markets with lots of transitory jobs (such as Washington, DC) increase the demand for spec homes, as does a lower price point. In many markets, as the price rises above some level, people want to "do their own thing." As a rule of thumb for most builders 15% to 30% of production should begin their life as spec homes. Around 20% would be typical. That's enough to take advantage of the benefits of spec building without over committing your company's resources.

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Spec House Flow Chart



A comprehensive spec program requires you to think through every aspect of the program and compare your competitive position in each aspect. Use this flow chart to manage the flow of work and thinking about your homes.

The SPEC approach to spec homes

Building Spec homes only makes sense when you do it efficiently and profitably. There are four aspects of the process you must master: Site, Product, Execution, and Cost. Together, the initials spell SPEC.

(Site) Where to build

A good spec home should always be built on a moderate to superior lot. A nice home doesn't make the lot worth more – the bad lot makes the home worth less. You shouldn't build on the best, most expensive lot you have access to (save that for your best custom clients), but nice enough

to be a positive benefit to the buyer. Never build a spec home on a poor lot (excessive traffic, poor drainage, unsightly view) since that will detract from the sales price and make the home difficult to sell. In general, save the weaker lots for custom buyers who are looking for a bargain.

(Product) What to build

The plan you select should be ideally suited for your target audience at a price point they're willing to pay. A spec home is not the place to indulge your fantasies about building the ultimate dream home. While potential buyers may appreciate the luxury features, they may not be willing to

pay for them. Orient the home to the middle of the market in terms of size, number of rooms, layout, finishes, and components. Pick a home design that's easy to build (with straightforward foundations and roofs), and strong curb appeal. And pick a design that will blend with the community. You may prefer ultra modern architecture, but building such a house limits the potential buyers to a small minority.

In choosing a design for the middle of the market, however, don't fall into the trap of building a home that looks like everyone else's. Give it some extra style, and some internal focal points that will stick in the buyer's imagination. If it's bland and boring, they'll choose something else.

(Execution) How to build

The trick to building effective spec homes is making the process as simple as possible. Have a small portfolio of homes you build again and again, so that you don't have to redo the setup, takeoff, bid documents, and component selections. Instead of doing an estimate from scratch, you can simply rebid using the same contractors. To minimize financing and overhead costs, you can reduce turnover time by getting pre-approvals and building permits. As soon as one spec home closes, you should be ready to break ground on the next one.

Even though you want to use your spec home to smooth out your construction flow, you don't want to fall into the trap of treating your spec home like an orphan. Keep the process moving, and make sure that you complete the home in every aspect. Some builders make the mistake of not painting the walls, or waiting on the flooring, thinking that a buyer might want to make other choices. Maybe they would, but not finishing the house can keep that potential buyer from going forward. They can't yet visualize what it will look like completed, and don't appreciate the quality and value that you've put into the home.

(Costs) Keeping control

While the size and materials of the home are the first determinant of cost, it's also possible to let the price get out of control through "feature creep." Sure, you can get a nicer grade of tile for only \$1.00 more per square foot. And Verde marble is quite lovely. But by the time you go through an

entire house adding a little bit here, and a little bit there, you've discovered that the house is priced outside the intended market range. It's always easier to add extra features to a home than it is to remove features that buyers don't want to pay for.

Marketing your spec homes

Since the purpose of building spec homes is to sell more houses, it makes no sense to build a spec and then let it sit on the market. How fast a spec home sells is determined by the factors we've discussed earlier (site, product, execution, and cost), but it's also determined by how well the home is marketed. Many builders simply turn the marketing over to a Realtor and then sit back and wait for sales.

While many spec homes can be sold that way, you can improve your chances of success by going beyond the minimal effort. The first step is to create a Realtor program that communicates how you work

with the Realtor. Stress the benefits of your process – including how you register clients, how you take the client toward settlement (freeing the Realtor to work with other clients), and accelerated commission payment.

The second step is to create marketing materials to promote the particular home. While some realtors create these for the builder in exchange for the listing, their materials usually feature the realtors name prominently, rather than the builder identity. You can create attractive marketing sheets inexpensively which present all the benefits of this particular home. These can be distributed to all the major realty companies. By making it easier for them to sell your home, you will not only increase sales, but will also create the awareness and positive working relationships to sell other homes (including custom ones) in the future.

Why is there bark on this stud?

(A letter to home buyers) by Carol Smith

We read a lot today about depletion of the world's rain forests and old growth lumber.

Balancing between pillaging our threatened resources and ceasing all human progress in the name of conservation is a big challenge.

What can each of us do to help preserve our environment? One of the answers to this issue turns out to be "a lot of little things." As with recycling, the sum of millions of tiny efforts ends up making a large impact. The effects of one such effort may be seen in the lumber used in your home.

There are many ways to convert logs into timber. Cutting the logs into quarters first and then slicing the quarters into boards produces boards of maximum dimensional stability. The reason has to do with how wood holds and releases water.

The individual cells that make up a tree hold water between the cells and inside the cells. As the tree is processed into boards, it dries out. The moisture between the cells leaves fairly quickly and without much effect on the shape of the board. The moisture inside the cells takes longer to dry out. This can result in

noticeable shrinkage. Although drying makes the wood stronger, if one side of a board loses its moisture faster than the other, the drier side shrinks accordingly, and the board curves in response.

Trees that are milled by quarter cutting then slicing are less likely to show this effect. But the extra cuts waste precious timber. Increased concern about waste has resulted in more trees being cut into boards by slicing the log up without cutting it into quarters first. In addition, trees are utilized out to the very edge, often resulting in lumber that still shows some bark.

These efforts may seem to salvage very little, but when multiplied by millions of trees, the savings becomes quite significant.

While this can certainly be annoying when a wall bows or a piece of trim pulls away from the wall, the integrity of the wood remains intact. The cosmetic hassles faced by builders and home buyers are part of the price of preserving resources by eliminating waste.

We ask for your understanding and patience in this. If you have any questions about your particular home, please feel free to discuss them with us.

Harvard Insights

One of the best sources for management ideas is the *Harvard Business Review*. When we run across an idea of particular interest, we will summarize it for you and tell you how it applies. For a full copy of the article, go to your library, subscribe, or purchase a reprint.

Schizophrenic Product Positioning

Jack Trout is famous for his books on "Positioning" products in the marketplace. In the September, 2005 issue of *Harvard Business Review*, in an article entitled *Schizophrenia at GM*, Trout asserts that the current financial difficulties at General Motors are the result of a muddling of the once clear market positions of the different GM brands. When Alfred Sloan took over GM in the 20's, he organized the hodgepodge of competing brands into a clear hierarchy of products, each targeted to a different specific income group, with very little price overlap between them. By 2000, however, there was a huge overlap between a Pontiac, Oldsmobile (now defunct) and Buick, and the Chevrolet brand tended to overlap them all.

For years, in our articles and seminars, we've been trying to get builders to apply these positioning insights to their businesses. (We've been recommending Trout and Ries' *Positioning: The Battle for Your Mind* for years). While builders tend to concentrate on one market segment, this same analysis can apply to brand positioning between competitors, as well as within a company. If there is little or no perceived difference between your products and your competitors, either in design, amenities, community, or price, there will be little incentive for buyers to select you over them. Find a difference, and then concentrate on promoting that difference – that's what positioning is all about.

Ask Al by Al Trellis

Standard Charges/Prices

Q: I understand you recommend custom builders provide their clients with a list of "Standard Charges/Prices" for upgrade items. What's your object here, "selling up the client?"

A: Actually no. Our objective is to give the client a realistic idea of what things cost before we begin construction of their home. As I frequently state in my speeches, I believe that the key to a successful relationship with your client is *realistic expectations*. Anything you can do to help create realistic expectations will help to eliminate conflict. For this reason, we try to pre-price as many standard changes as possible, so that clients have a firm understanding of what things cost. Moreover, I believe it is much easier to explain the pricing of an item by using a preprinted pricing sheet than by attempting to justify a seemingly arbitrary number.

In custom and semi-custom home building, buyers are always going to add items to the basic house. Even most production builders are becoming more flexible about options and upgrades. And since these changes are going to happen, why not make the process as easy as possible for the buyer, the builder, and the subcontractor.

Of course, it's only possible to provide a pricing sheet if your unit costs are pre-priced with all your subs. We would have them submit a bid on all items once or twice a year. Those prices would remain firm until the next bid. If you don't have to get the sub to estimate every single modification to the plan, it frees time and energy for other things. And the clients are more likely to add those items they want when they know the prices in advance. This may result in upselling and increased profits – but I don't think that's such a bad thing.

A Pattern Language by Paul Sharp

Intimacy Gradient

Christopher Alexander wrote *A Pattern Language*, outlining over 250 rules of thumb (patterns) that affect home design. We've highlighted some of our favorites.

No 127: Intimacy Gradient

"Unless the spaces in a building are arranged in a sequence which corresponds to their degrees of privateness, the visits made by

strangers, friends, guests, clients, family, will always be a little awkward. Therefore: Lay out the spaces of a building so that they create a sequence which begins with the entrance and the most public parts of the building, then leads into the slightly more private areas, and finally to the most private domains."

In this floor plan, notice how the public areas are all interconnected through the grand foyer and gallery. The Master Suite is separated from the public areas by a vestibule. Putting the master suite on the main floor and the children's bedrooms on the second provides further intimacy separation.

Floor plan by David Court.



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Contributors

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Carol Smith is founder of *Home Address* in Monument, CO, a homebuilder customer relations consulting firm.

Quote of the Month

"If you think no one cares if you're alive, try missing a couple of car payments."

–Earl Wilson

Next Month: Back to Basics: Improve the Product. If your sales aren't as good as you would like, maybe it's because your home designs aren't as exciting as they could be. How to rethink your current product, and develop new product to increase buyer response.