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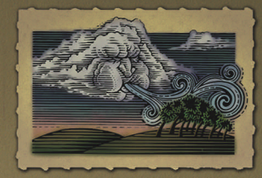

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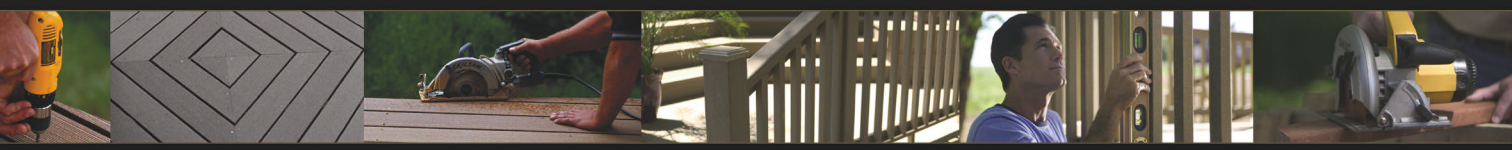

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April 2006

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Upward Glance

One of the tenets of human nature is that our eyes tend to be drawn upward. We gaze on the highest mountains, we track birds in flight and we distinguish familiar forms in oddly shaped clouds. As home builders, we know this inclination in our bones, so we build houses with two-story entries, put vaulted ceilings in master suites and craft tray-ceilinged dining rooms.

In this issue of *Professional Builder*, we gaze upward at the 400 largest home builders in the country — the Giant 400. We do this not because these companies represent the home building industry more clearly than tens of thousands of other companies. No, we do this to provide a benchmark. *Professional Builder* has been tracking this group for 39 years. We have information in our vaults about these companies that goes back to 1985. (Vaults may be a misnomer. In truth, it is a bunch of beige file cabinets in a storage room next to some black cabinets.)

While I enjoy the idea of having that information, the real reason we track the Giant 400 is to get a sense of what's going on in the industry. Senior Editor Bill Lurz has worked on the Giant 400 story for 23 years. His article in this month's issue reflects not only a study of this year's group, but an understanding of the last two dozen Giant 400 lists. Put that in the context of Lurz's 30 years working in the home building industry, and you can get a sense of why we are interested in following the largest. It offers us a touchstone on our individual businesses, provides an insight to emerging trends and delivers a measurement of the movements and tectonic shifts of the industry.

The two biggest things I notice about this year's list are that the five Supernovas, the five largest companies, are still widening the gap to the rest of the industry. While I don't ascribe to the notion that they will capture a huge percent of the industry as some analysts have suggested, I am fascinated by their struggles to maintain enough revenue and earnings growth to keep the barons of Wall Street satisfied. That's a hard place to live.

That's also a very different business. For the rest of us, the tens of thousands who represent the meat and potatoes of the home building industry, we can only stare upward at those overarching oaks and wonder what it must be like. Then, quickly, we have to turn our heads back to earth because even at the most simple level — one builder, one house — there are 70,000 items we need to keep our eyes on to satisfy our customer, make our payroll and earn our profit.

Home building is a hard business. It's good to look up every once in awhile. **PB**

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Keynotes: Teamwork and Leadership

Patrick Lencioni

Patrick Lencioni is the founder and president of The Table Group, Inc., a specialized management-consulting firm focused on executive team-building and organizational health. He has been described by the One-Minute Manager's Ken Blanchard as "fast defining the next generation of business thinkers." Pat's passion for organizations and teams is reflected in his writing, speaking and consulting. He is the author of five business books, including *The Five Dysfunctions of a Team*, which was on the New York Times best-seller list. His new book, *Silos, Politics and Turf Wars*, came out in March 2006. Pat consults to executives and speaks to world-class organizations, addressing thousands of leaders. Prior to founding his firm, Pat worked for Sybase, Oracle and Bain & Company. He also served on the National Board of Directors for the Make-A-Wish Foundation of America from 2000-2003.

Keith Harrell

Known for his energetic, innovative presentations, Keith Harrell is a dynamic life coach who specializes in changing behaviors through a positive attitude. While growing up in Seattle, he aspired to become a professional basketball player. Although he never realized that dream, The Wall Street Journal says, "What sets him apart . . . is driving ambition and an attitude that refuses to flag." Through his company, Harrell Performance Systems and his book *Attitude is Everything: Ten Life Changing Steps to Turning Attitude into Action*, Keith specializes in helping companies achieve and maintain their goals. Harrell spent 14 years at IBM, where he was recognized as one of the top sales and training instructors. He is widely regarded as one of the country's best speakers.

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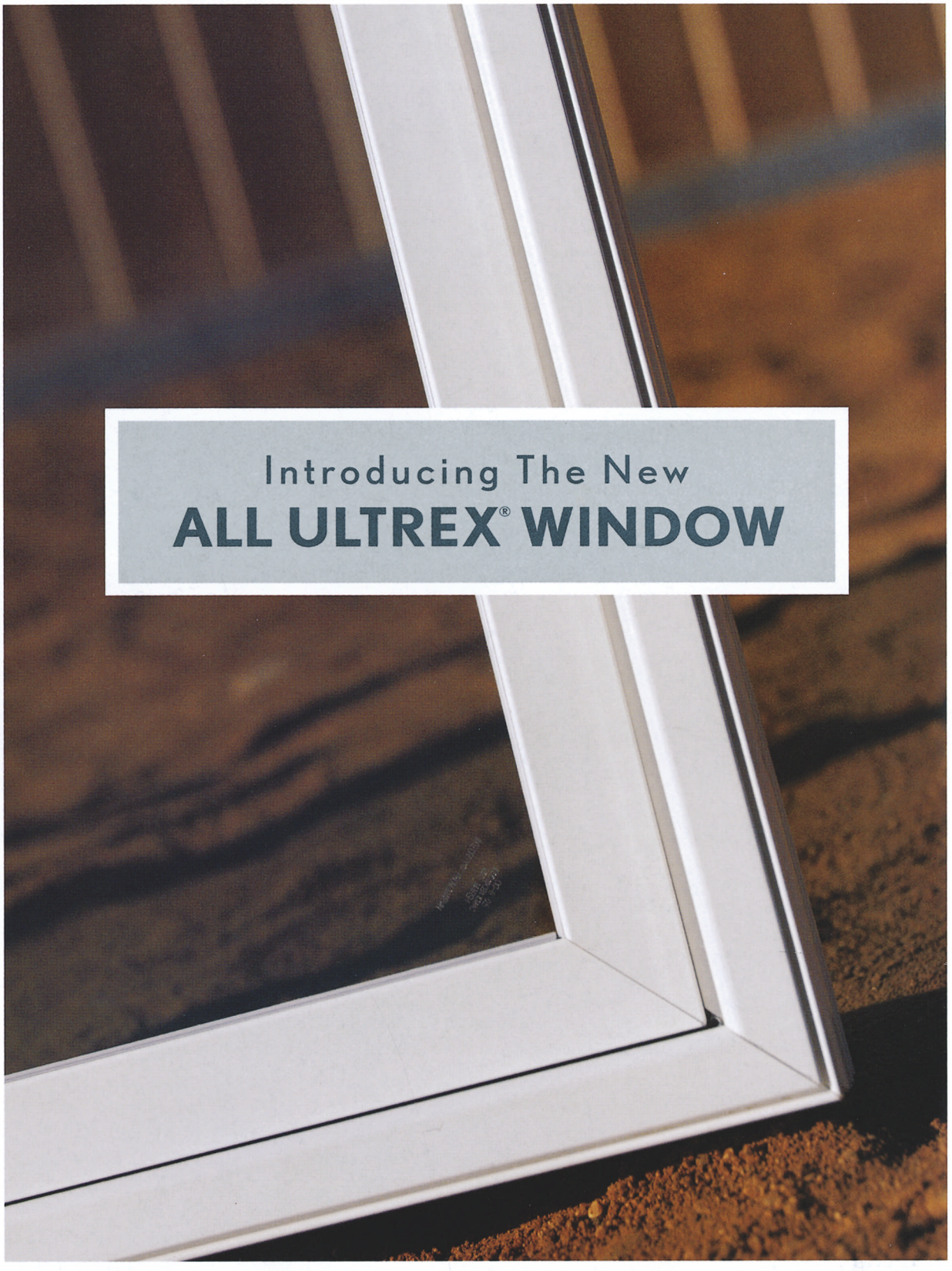
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Proactive Solutions

>> FELICIA OLIVER, SENIOR EDITOR

Florida reBuilds helps involve Katrina victims in the process

New construction training program aims to bring fresh blood into the industry.

Florida reBuilds is a new training initiative aimed at alleviating the shortage of construction workers in the state.

"Even before hurricanes caused significant property damage ... we were experiencing a shortage of workers in the construction field," said Toni Jennings, Florida's Lieutenant Governor.

"The continued recovery from the last two hurricane seasons and the continued expansion of Florida's booming economy depends upon having an adequate supply of skilled trade workers to meet the demand. In meeting that demand, we are also creating employment opportunities for many Floridians whose jobs have been affected by the hurricanes."

"The program is open to everybody," says Len Tylka, president of the Florida Home Builders Association.

"I've already had several calls to me from people that have been displaced out of jobs or out of homes because they lived in areas that have been hurt by the hurricanes."

"It is entry level training," adds Tylka. "There will be additional training that will be available to these folks ... if they decide to progress in this career."

State universities, community colleges, vocational centers and the like will provide the training. The curriculum will be designed and developed by the Florida Department of Education in conjunction with the FHBA and other industry groups in the state.

Tylka says the labor shortage is due in part to the fact that high school students are not being encouraged to pursue construction careers, with the misperception being that these jobs don't pay well.

For more information about *Florida rebuilds* go to www.employflorida.com or call (866) FLA-2345.

>> FELICIA OLIVER, SENIOR EDITOR

Neal Communities sponsors My Favorite House Contest for neighborhood elementary school

NEAL COMMUNITIES DONATED $1000 to a neighborhood school, giving each of 400 students the opportunity to depict, in the media of their choice, an image of their favorite house. Winners were featured on Neal Communities' 2005 holiday cards.

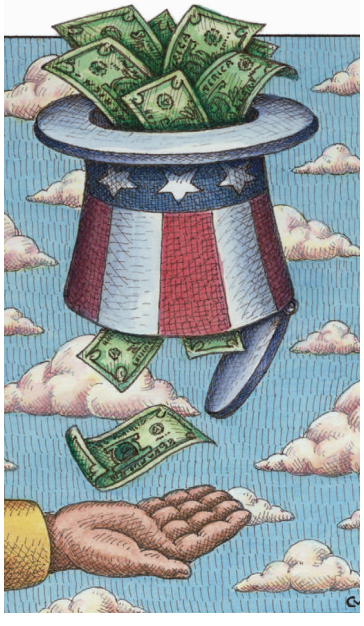
Proactive Solutions

>> BY LAURA BUTALLA, SENIOR EDITOR

New tax credits for 2006

As the 2005 tax season wraps up, keep in mind next year's new tax credit for new homes qualifying as energy efficient. The Energy Policy Act of 2005 (EPACT), signed by President Bush in August 2005, outlines new Federal tax credits for consumers and businesses pursuing energy efficient usage.

Specifically for home builders, EPACT provides tax credits up to $2,000 for the construction of a qualified new energy-efficient home. The home must save 50 percent of the heating and cooling energy compared to the 2004 International Energy Conservation Code (IECC). HUD code manufacturers can also be credited up to $1,000 for homes meeting the Energy Star criteria or saving 30 percent of their annual heating and cooling energy consumption. To apply for these tax credits, construction must take place between January 1, 2006 through December 31, 2007.



For more information on energy efficiency tax breaks for builders, visit www.eere.energy.gov/buildings or call 877-EERE-INF. Also check with your local state's energy office for other state tax breaks.

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ELLEN KNORRING, DIRECTOR OF PURCHASING FOR STANLEY MARTIN COMPANIES, will help management meet its goal of nearly tripling its closings by 2010 by to keeping a watchful eye on purchasing processes.

PHOTOGRAPH: GREG HADLEY

>> BY **BOB SPERBER,** *SENIOR EDITOR*

SPOTLIGHT

On-Track Mind

Purchasing chief Ellen Knorring is in single-minded pursuit to contain costs, variances and schedules as Stanley Martin Companies turns 352 homes into 1,000 a year.

Talk about dedication. Ellen Knorring used to play racquetball at least four times a week. But these days, she's pretty busy at work. She even bought a house right across the street from her office. Then — bummer — three days after her January move-in, the company relocated.

"I tried to convince them to not move but they wouldn't listen to me," she says. She's kidding. We think. Because the builder she works for, Stanley Martin Companies, moved only 1.11 miles down the road in Reston, Va. Then again, maybe she's serious; this is one director of purchasing who's single-minded in her pursuit.

She's determined to make sure her department helps management meet its goal of turning last year's 352 closings into 1,000 by 2010. To do that, she'll need the vigilance of a hawk to keep on top of new Giant purchasing processes.

On Track for 2006

Knorring celebrated her third anniversary with Stanley Martin in January. In this short time, she has proven her ability to "base decisions on measurements, as opposed to word of mouth," says boss Michael Schnitzer, chief operating officer. Knorring credits much of her success to her boss, a "horizon thinker [with] an amazing mind." To be sure, the COO has a mind to hold his purchasing chief to three main objectives this year:

- Reduce purchasing costs by one dollar per square foot per quarterly period
- Reduce contract variances to reach one percent
- Contract all jobs 100 percent before all sales openings

The first goal, reducing purchasing costs, indicates "how well you negotiate," Schnitzer says. This is being accomplished through various estimating and measurement programs. The second goal, reducing contracting variances, speaks to "how accurate your contracts are," says the COO. This is important to management budgets because each percentage point translates to a range of $2,300 to $3,500, and in recent years, variances topped two percent. Finally, Knorring is indeed moving to lock in contracts before the sales trailer opens, which satisfies the third goal as it reinforces the second by sealing estimates in concrete. How Knorring came to embody such competence is a story more than two decades in the making.

The Accidental Purchaser

Knorring started her career as a degreed architect in the early 1980s. She worked in Chicago for five years on commercial and residential projects in the early 1980s, but found it "fairly routine and repetitive." So she sought work in the architecture department of a local division of U.S. Home. After a battery of background checks, screenings and interviews, she was offered a job.

"The odd thing was that in the whole course of my interview process, and all the paperwork and correspondence, I said I was applying as an architect. And

A SIMPLE PLAN

The Brambleton model, shown, illustrates Stanley Martin's purchasing initiative to reduce complexity. Priced in the high $600,000's, it's offered across a whopping 20 elevations. But while exterior, porches, stoops, gables and corbels change, the basic floor plan doesn't, and there are very few interior options.

"Controlling the number of structural options and restricting changes to the elevation lets us streamline our contracting as much as possible," Knorring says. What's "possible" mean? She led the effort to reduce design studio options by roughly 60 percent and structural options by 40 to 50 percent.

when they offered me a job as a purchasing agent, I said, 'what are you talking about?'" The company didn't have an in-house design department, but personality tests pegged her as a good detail-minded purchasing agent.

Knorring accepted the job and soon found it "really satisfying to be part of the whole process, as opposed to just owning a little piece of a project and never getting to see it through."

After 22 years in purchasing for builders in Chicago, Las Vegas and metro Washington, it's evident her staying power is no accident of fate. She doesn't think about going back, even if Stanley Martin does have its own in-house design department.

After Knorring's performance last year, management promoted her from regional purchasing manager of the headquarters-based Northern Virginia to director of that and two new divisions, one in southern Maryland and the other covering western and West Virginia. She says the new operational scheme helps her better manage a trade base working on 15 to 20 neighborhood projects at any given time because "the D.C. metro area is sprawling [and] dealing with the local contractor base from one end of the market to the other of the market is important."

As of January, her department included one purchasing manager for each division and a general buying manager for commodities used across all three divisions. She now has the resources to keep costs down, cut variances and get those jobs scheduled as efficiently as possible.

Culling the Catalog

This year's goals were made more attainable because last year, Knorring's crew reduced costs by trimming unnecessary complexity from the product catalog to cut costs and free-up resources for further improvements.

"In the past year, we took a hard look at what we felt the public wanted and we were actually selling, and we dramatically reduced the number of options we were offering," Knorring says. By dramatic, she means she slashed roughly 60 percent of the company's design studio options and between 40 and 50 percent of all structural options. She admits it was "pretty shocking" to learn that many options were selling at a rate between zero and five percent of homes. "So much time and energy were being spent estimating and maintaining prices on materials and labor that we weren't even selling!"

Paring the catalog of those unwanted items lifted the burden of estimating and maintaining prices on that bulk of items that weren't selling. This not only made purchasing more efficient, but also has reduced suppliers' efforts to manage their accounts with the builder, creating an avenue for lower supply chain costs.

Michael Roman, chief financial officer, says the problem was that the product catalog "pie just kept on getting bigger and bigger over the years." His

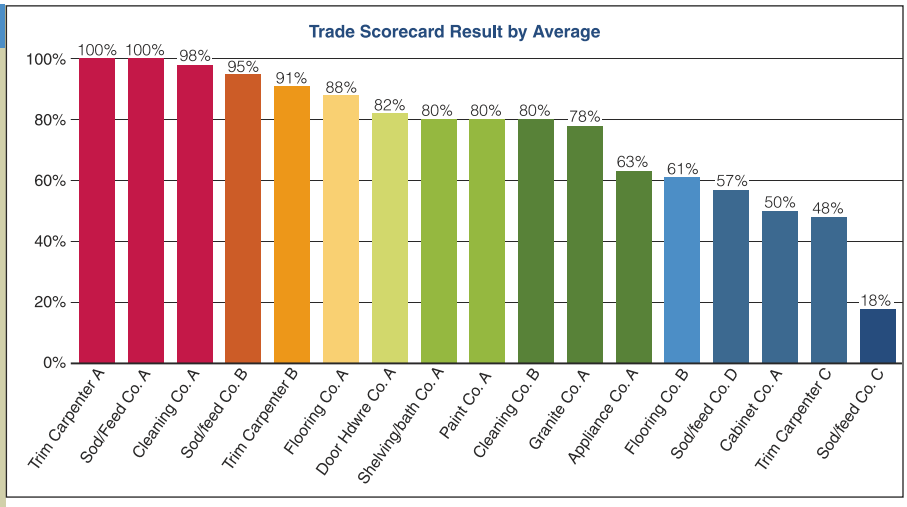
THE TRADE PARTNER SCORECARD

To improve decision making and rate the quality of its partnerships, Stanley Martin uses a Trade Partner Scorecard. Site superintendents rank whether a trade always, mostly, occasionally — or never — performs each of 10 criteria. These include ratings of on-time job starts, completions, cleanliness, safety and on-the-job attitude.

Beyond reviewing consolidated data in-house, Stanley Martin shares the monthly one-page scorecard report across its trade base — they can see each other's scores. This gives star performers deserved appreciation; gives strivers something to shoot for and gives laggards fair warning. Any trade scoring below 50 percent must meeting specific goals and deadlines to keep its business with the builder.

Knorring uses the scorecard to award jobs as well as troubleshoot job readiness and completion hot spots. Along with a complimentary job-ready program, it can help uncover, for example, that chronically late concrete pours, not all the framers, are to blame for delays on the job site.

This year, the scorecard's administration moved from Knorring's purchasing department to construction, where its execution has been handled. She continues using it faithfully "because it, in fact, is measuring the quality of the subcontractors we hire. And that's a direct reflection on how successful the purchasing department is."



THIS VIEW OF THE MONTHLY Trade Partner Scorecard (with names removed) shows average scores from highest to lowest performance for a portion of trades tracked. The program started a few years ago with framing, electric, HVAC and plumbing trades, and has added approximately 10 categories since.

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observation of the project is that Knorring was "very disciplined."

Negotiating better partnerships

Under Knorring, purchasing is working creatively with partners to cut costs without sacrificing high quality or product performance.

"We're basically moving from one methodology to another one in terms of how we contract," Knorring says. "We're buying jobs rather than just bidding them."

If the difference sounds subtle, it's effective because more in-house research on supplier prices is giving the builder more knowledge. That knowledge is supply chain power.

In the past, the company would make plans available to a broad trade base. They would then collect bids, analyze the best, negotiate and contract. It sounds pretty normal, right? But she says the new way of "buying a job" is different. Purchasing researches what it's willing to pay, then selects a group of preferred vendors with whom to negotiate.

This initiative is, however, tempered by a broader, global view of partner relationships in which all parties can win. Details include:

- Improved trade schedules to keep crews and supervisors at one site instead of "ping-ponging between jobs," Schnitzer says. The trade savings can then be passed along to the builder.
- Bundled jobs for the long view. While the exact proportions vary, the overall policy is to give the top-performing trade in a category 60 percent of the work; the next-best trade 25 percent and a third trade 15 percent. This motivates partners because it can mean the difference between a $10,000 job and a $100,000 relationship.
- Better unit pricing as estimators evolve their analysis from lump-sum bids to break out labor, materials and even parts. For example, a sub-assembly or a piece of a larger system can be substituted to save money for both the trade and — in turn — the builder without affecting the overall system's performance or reliability.
- All parties — builder, partner and customer — win because the system maintains margins while delivering an end product with maximum value.

Variances and Beyond

Knorring excels at measuring the transactions involved in trade partnerships as well as in-house processes to get jobs contracted earlier and attack scheduling variances.

Each week, purchasing meets with other departments to review days of variance on the construction schedule. These are predictive meetings where slowdowns and glitches are the focus. For example, a late lumber delivery might be holding up a job, or a plumber who sent out a skeleton instead of a full crew. "These meetings give us the opportunity to find these things out, and to investigate and resolve them," says Knorring.

She's going even further to root variances from within. By tracking when her own department makes calls to schedule crews, Knorring makes sure trades have ample notice to do their own scheduling. This effort feeds the need to have jobs 100 percent contracted before homes open for sale in all neighborhood projects.

Purchasing shares an arsenal of measurement tools with other operations, such as a job-ready program developed in-house that tracks trade scheduling, worker and job processes. Some builders add a second "job-complete" element, but says another tool, the in-house Trade Partner Scorecard, addresses this. This tool provides regular grades on trades for better decision-making. (See *The Trade Partner Scorecard* on page 22).

Despite the complicated processes involved, Knorring makes them sound simple. "So much of what we are doing is basic common sense."

All the details of managing a growing slice of Stanley Martin seem to fall in line for Knorring, from purchasing to a larger zero-defect program and a role in working toward a National Housing Quality certification with the NAHB Research Center.

She may yet find time to book more time on the racquetball courts. But at the moment, she's busy serving on the steering committee of a Regional Quality Council of the Northern Virginia and Maryland-National Capital building associations. There, she's sharing best practices and working to standardize the job forms trades use with builders across the region to improve both quality and customer perceptions of the home building industry.

Talk about dedication. **PB**

HIRING TRADES? DO YOUR HOMEWORK!

"It's a no-brainer, a very basic and simple step people should take," says Knorring. "Do your homework!" She's referring to the very simple process of asking for, and calling, references before working with a trade.

She follows up on these references to see if there are an abnormal number of missed or botched orders, product defects or delivery problems.

"I've found — and so have other people on staff here — that when we call references, we'll sometimes get an absolutely terrible review, like: 'This is the last company I'd hire, they don't know what they're doing!'" And yet she reports seeing other builders neglect these few simple calls "time and time again."

The calls, of course, help Knorring size-up trades to "know what they're capable of, know what they've done, and know what their customers are saying about them." She requires trades to provide contacts with other production builders they've done business with in a specified period, and with direct contacts who "in the course of a job have overseen the trade's work and can comment on it."

It's not just talk, says one manager with a trade awaiting its first job with the builder. "They called builders and also manufacturers we work with to see what kind of business we run. They wanted to make sure we could supply the material as needed and that we could keep up with demand."

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>> BY **SCOTT SEDAM,** *TRUENORTH DEVELOPMENT*

LESSONS LEARNED

Your Choice in Cost Control

The *7-11* or Bank of America?

Here is a scenario to challenge your staff and in the process, discover some profound insights on home building strategy, especially in view of the recent slowdowns in so many markets.

Get the staff together; ask if any among them has all the money they want. There won't be a single hand. Since they clearly have the required motivation, you give them the tools they need to make a nice score — a loaded .38 special, a ski mask and a get-away car.

Now for the big question. They must choose choice between two robbery targets, a *7-11* or the Bank of America. Break them into small groups and have them discuss their goals, the pros and cons and make them reach a group consensus on their target. This can be difficult, amusing and revealing.

The 7-11 Strategy

The *7-11* strategy is quite compelling. Very few convenience store robbers are caught, on a case-by-case basis. That's encouraging! The bad news is that the average take might be a couple of hundred bucks. Disappointing. But you get your Slurpee, Twinkies, beef jerky, Marlboro's and a little cash. Quick in-quick out.

When you knock off a *7-11*, who comes after you? The local guys, and not to disparage the hometown constabulary, but most of them never applied to the FBI Academy. If you get in and out of a *7-11* quickly and hightail it to the next county, your chances are good. For a couple of days you've got a small wad of cash and a belly full of junk food.

The trouble is neither satisfies for very long. Come Monday morning, you realize your Saturday night heist won't get you through the week. It's time to find another *7-11*. Rob enough of them and sooner or later, something goes wrong. Either a local cop pulls in right when you are pulling out or Lenny behind the counter has chosen this day to finally make a stand, and his .357 magnum trumps your .38, hands down.

The Bank Heist Strategy

Bank heists, on the other hand, frequently yield $5,000 to $10,000 — with potential for six or even seven figures. You can figure at least the take from a hundred *7-11*'s in one job! You aren't going to score any beef jerky — maybe some bad lobby coffee and stale cookies — but do you care? You're having dinner tonight at Charlie Trotter's and dropping $500 on groceries at Kroger on the way home. That is if you overcome the nagging obstacles thrown in your way.

Bank of America has cameras and, unlike those at the convenience store, these work! The bank also has alarms,

PHOTOGRAPH: GETTY IMAGES

marked bills and those annoying, booby-trapped money bags with dye-bombs. And when you rob the big bank, while the local guys are finishing their donuts, the Feds have already sprung into action. Their record? I once heard on Larry King that 80 percent are caught within 30 days. More than 95 percent within a year. I don't like those odds.

Then there is all the planning you have to go through. To take the big bank, you need to study, plot, plan and execute flawlessly. You also need an accomplice or two. So now you are a manager, which means "people problems."

But there's something even scarier. The big banks have a 60-year-old armed guard named Frank, recently retired from Acme Plant Security, where not once in 30 years did he get to fire his gun. So as you are running out of the bank, Frank eyeballs your back and for the first time in his life gets a glimpse of the uppermost level on Maslow's Hierarchy of Needs. Your sacrifice equals Frank's self-actualization. He smiles and pulls the trigger.

Your Choice

Tough decision, isn't it? When you ask a group, most adopt the risk-taker's bravado and claim they are going for the big bucks at the bank, even though it's far more difficult.

In real life, the opposite is true. When in serious need of money, like most criminals, we go for the short-term, quick hit, no-brainer, easy route. Is it any different in home building?

Right now, many markets are slowing down, often for the first time since the early 1990s. The growth and volume that has covered our sins is drying up. Builders are concerned and rightly so. The renewed focus on cost reduction is intense.

So where do you find the money? What can you cut that will show quick results and impress the boss — or the board? Let's consider the targets.

Money Targets

For most builders, house costs run between 50 percent and 60 percent of sales. That's a lot of money, sort of like the Bank of America. And like the bank, it can be hard to get. You have to analyze, you have to plan and you have to train your people in methods to find the waste, recover it and make the changes permanent. We are talking about serious product and process improvement

Here's the rub: the *only* way to achieve the greatest gains is to work in an open, high-trust and mutually beneficial mode with your key suppliers and trades. What does that mean?

- Training everyone to work together as a team, analyze problems and solve them
- Developing solid, long-term relationships that are based on *total cost* rather than initial price
- Rethinking the traditional builder methods of hammering suppliers and trades for cost reduction, which actually inhibit the very goals you are pursuing

Do we have to go to all that trouble? Isn't there something easier? Absolutely, and it's sitting there right in front of you. No teamwork, no planning, hardly any thinking required. Just fire off the memo today and the money starts rolling in tomorrow. It's home building's equivalent of the *7-11* and its called overhead.

The Overhead Line

Overhead usually averages between 5 percent and 6 percent for most builders — about *one tenth* of house costs. That's not much money in comparison, but it's so *easy* and you get it *right now*. Put a freeze on salaries, bonuses, recruiting and hiring. Kill the trip to Six Flags and the summer picnic and golf outing. That Habitat project can wait until next year. Cut the supplier/trade breakfast and cancel all the training — especially the training. So what if you said it was part of your culture, part of the way you do business? You didn't say *when*.

Today, all over North America, it's happening. Builders are slamming their overhead, and the impact is being widely felt. You may want to argue that some of those cuts are appropriate and that may be. I wouldn't spend money recruiting new staff if I am laying off people.

Maybe, just maybe, if you were more of a Bank of America guy than a *7-11* guy, none of that would be necessary. There is so much money being wasted in the building and development process. That's where you should be looking first — and hardest. Without the people, without the training, without the supplier and trade relationships, though, you'll never find it.

The *7-11* strategy is little more than a short-term, junk-food high. You have genuine overhead issues? So deal with them, but stop overreacting. You think you've solved a problem but it's the proverbial gift that keeps on giving. You demoralize your organization and inhibit your ability to achieve the kind of product and process improvement that leads you to the real money.

Drive right on by that tempting convenience store and get yourself down to the bank. Remember, it takes more than a memo. It takes hard work and more of what you were hired to do. Be a manager. Be a leader. Be an executive. Remember the words of Willie Sutton, the infamous bank robber when asked why he robbed banks. He replied, simply, "Cause that's where the money is!" **PB**

Scott Sedam is President of TrueNorth Development, a nation-wide consulting and training firm focused on quality, process improvement and organizational development. He can be reached at scott@truen.com.

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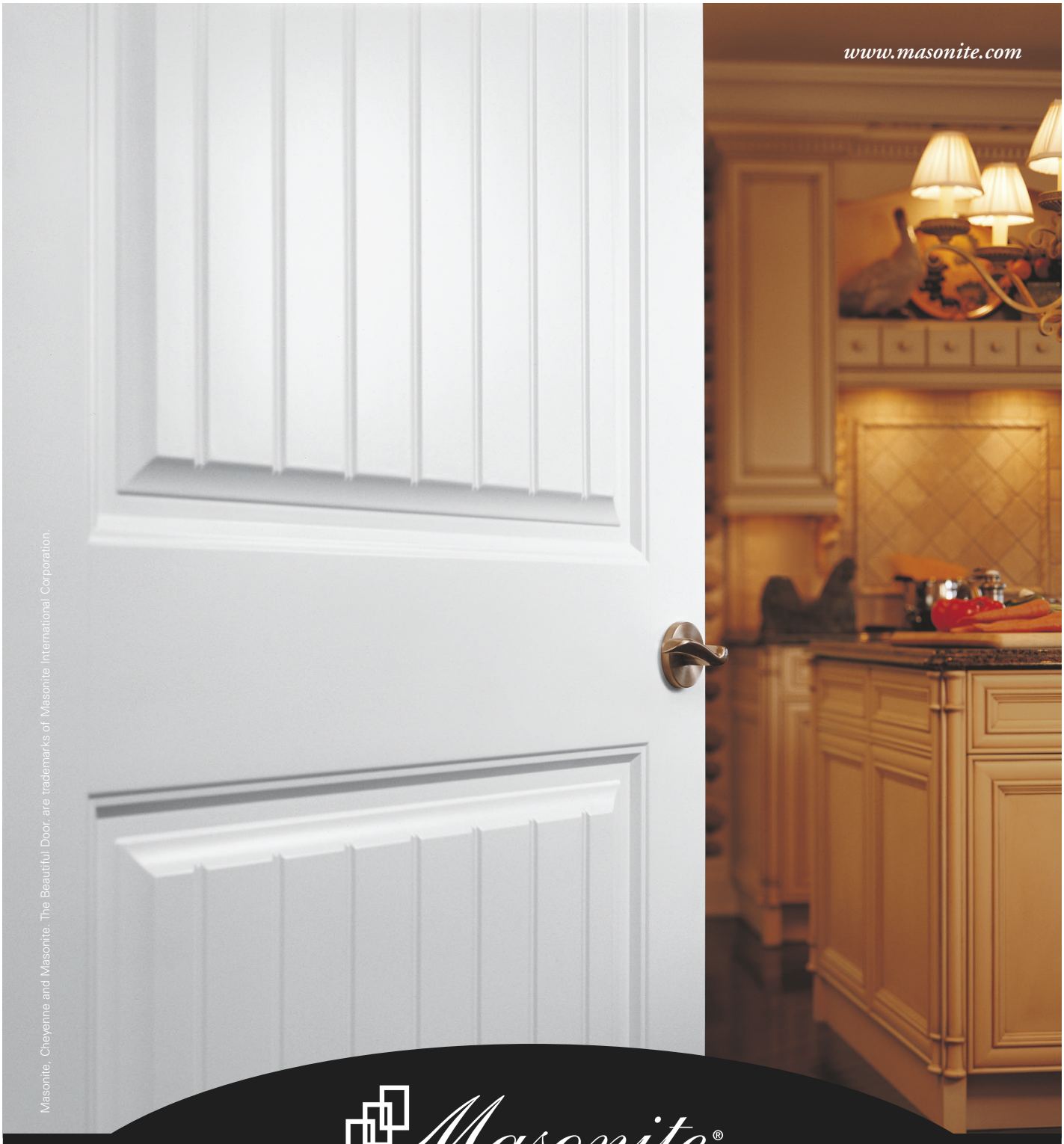

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>> BY **BOB PIPER,** *THE TALON GROUP*

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More Vacancies Ahead?

I'm not referring to rental properties or homes, but people. Most builders will tell you that people — or lack there of — are their greatest challenge to growth. The need for qualified people at all levels is far greater than the supply. Nothing indicates the situation will improve anytime soon.

I believe this gap will become even wider as a new trend continues to evolve: the mid-life change of the seasoned manager.

For the past few years, I've witnessed the exit of many home building managers and executives who fired their companies. I'm hearing similar plans from other managers and executives who have yet to pull the trigger. This runs the gamut from middle managers to senior level executives. What's driving this? It varies by level.

Take, for example, a senior manager leading a 1,000+ unit operation. He receives bonuses running well into the seven-digit range with a total compensation package that looks like it belongs to a first round draft pick. Some may see this as the pinnacle of his career, while others see it as a stepping off point. Why?

It's the curse of more, more, more. As in more volume, more market share, more profit. Managers and executives constantly listen to refrains of "It doesn't matter what you did last year, we expect 10 percent more this year." How long will it be before we hear of a single division closing 5,000 homes/year, requiring 15,000+ lots in the pipeline?

The pressure to continually deliver the goods can be draining and less than satisfying.

The senior manager is usually well connected, has gained the trust of developers and is set financially and well prepared to start his own company. It's not uncommon to see start-ups like this go from 50 closings the first year to 300 or more by year five.

Going down the chain of command, we find the manager running a core department (construction, sales, purchasing). He typically has 10-20 years progressive experience; reasonable job security; and is well paid with attractive year-end bonuses and benefits. What motivates this person to strike out on his own?

Limited advancement in his current company. Let's face it, most division president openings tend to be filled with candidates with division president experience. There are few exceptions. When was the last time you heard of a vice president of sales or vice president of construction being promoted to division president?

Another reason a manager might go out on his own may be that the company is going through *another* reorganization.

As a home builder, you have made great strides in satisfying your customers. Have you put forth the same effort to develop and satisfy your people?

Another new boss to get to know, another new system to learn, another new drumbeat to follow.

What's the point of all this? You, as a home builder, have made great strides in satisfying your customers. Have you put forth the same effort to develop and satisfy the lifeblood of your organization — your people?

Don't get caught by surprise. It's not always about the money or the numbers! **PB**

Bob Piper is the founding Partner of the Talon Group, a leading retained executive search firm specializing in the real estate development and home building industries.

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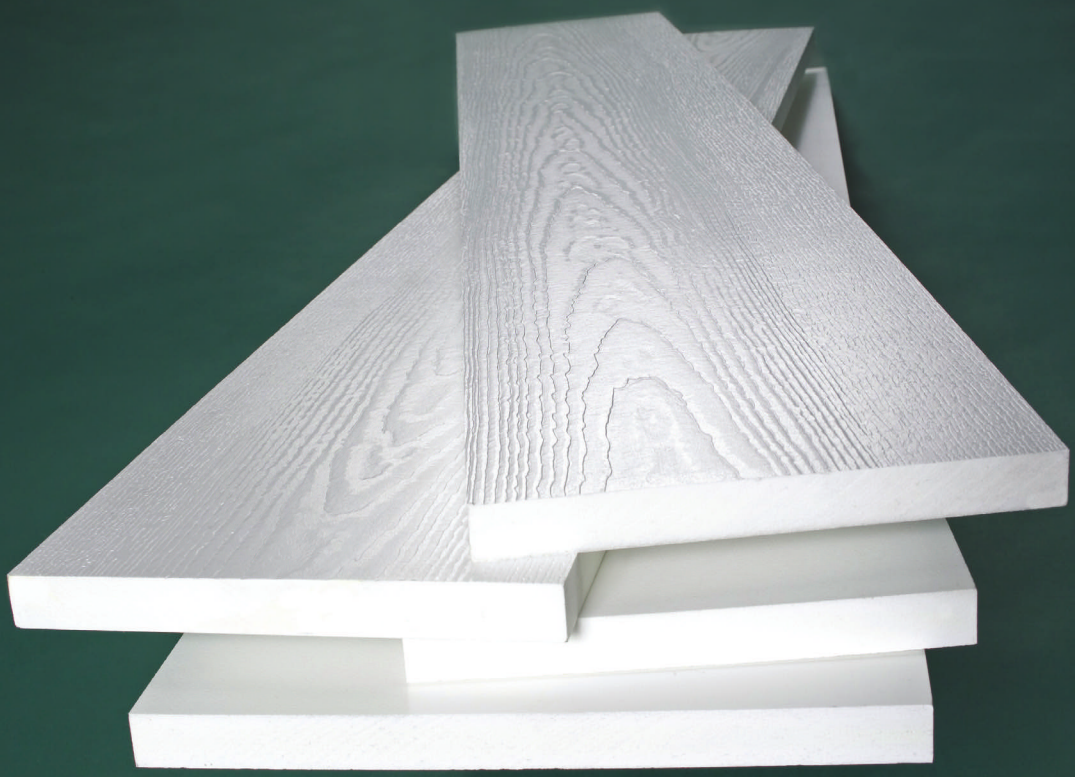

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>> BY PAUL CARDIS, *NRS CORP.*

CUSTOMER SATISFACTION

Builder SWAT Team

Building a SWAT team is your best defense against hostile customers.

Sooner or later, every business encounters customers that are dissatisfied, even when they've received the best service and products available. Sometimes their anger is justified; other times it stems from unrealistic expectations. Either way, these potentially hostile homebuyers can present serious problems for home builders.

We have found that, on average, 7.5 percent of a builder's customers had made a negative referral about their builder to others. Even the NRS award winners, which represent the industry's best in customer satisfaction, had an average of 0.8 percent of their customers making a negative referral about their builder. These customers — who have the capability to drive away business — represent the toughest clients we have to deal with in the home building industry.

Some would argue there is only so much we can do to appease customers and that there will always be some disgruntled homebuyers who will never be satisfied. Our team has found there is reason to hope with these customers, but it requires a sophisticated approach to customer service. This approach employs what we call a Builder SWAT Team, which is critical to protecting your organization from a public relations nightmare.

J.D. Power and Associates recommends builders focus on those customers who are easily satisfied and ignore those who are difficult to please. Our researchers have found this to be problematic and dangerous for builders. We agree that builders should focus their attention on the areas of greatest opportunity, but builders must also have a process for dealing with those moderately to severely dissatisfied customers who can create a public relations disaster in any given market. This is where a Builder SWAT Team is essential to maintaining good customer relations and a reputable public image.

Building Your SWAT Team

We recommend every builder have a SWAT team — a crew ready to go into action when a potentially hostile customer emerges on the radar. What is SWAT? Special Weapons And Tactics. As most people know, SWAT is a division in many police departments assigned to handle difficult and dangerous situations. It is made up of regular police officers who go through rigorous training to learn special tactics for handling extreme situations. With that said, every builder should have in place a SWAT team to effectively deal with hostile customers.

Unfortunately, few businesses take the process of apologizing seriously — even though it's the easiest way to deal with irate customers and gain advantage over the competition.

Now, please leave the weapons at home; this is a non-violent approach. What I'm describing here is a specially trained group of employees that is called into action when a hostile customer is identified. The team works to resolve disputes through informal arbitration with the buyer.

There are four key components to a Builder SWAT Team:

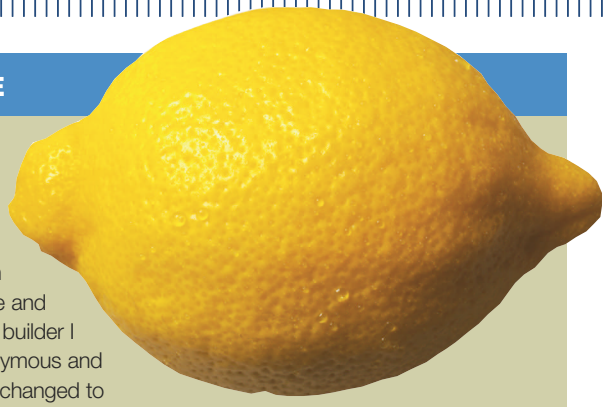
- **Identifying Potential Hostile Customers** is best accomplished by having in place an active CRM (customer relationship management) and CSM (customer satisfaction

measurement) programs. The CRM Program serves the purpose of managing work flow and documenting the history of the buyer in the process. It is during any of the CRM touchpoints that a buyer may be identified as being difficult and requiring intervention. Another way to identify customers is through your customer satisfaction survey program. As surveys come in, your team must be focused to flag low scores and read the comments of buyers to determine if there is a potentially hostile situation. Through examining your data and combining it with your knowledge of the customer's experience, a determination can be made as to the status of the customer.

- **Composition of the Builder SWAT team members** includes a project superintendent/builder, warranty representative and executive from the main office who are authorized to make warranty repair decisions. The key is to assemble a team that shows the homebuyer that you are taking that matter seriously. Also, by having top-level personnel involved, the SWAT team will be able to offer solutions and quickly resolve matters without the need to get approval from others in the company.
- **Actions taken by the Builder SWAT team** should be well documented. Ideally, the team should meet with the homebuyer at the house, which might require evening or weekend appointments. Start by going through each area of concern and determining if there is an appropriate fix. It often helps if SWAT team members can put themselves in the place of the homeowners and ask, "What would I expect the home builder to do if this were my house?"
- **Resolution and follow up** must be immediate. The SWAT team should track all issues and action plans to make sure they are completed in a timely fashion. Inoculate homebuyers against further dissatisfaction by alerting them to any delays they can expect with certain repairs or remedies. Finally, present the homebuyers with a service recovery gift that reminds them how much you appreciate their business and how important you view the homebuyer/builder relationship.

Once the SWAT team has done its job, the homebuyer can be placed back into the builder's regular CRM program. In an ideal world, you would never have to assemble your SWAT team. But knowing that the team is prepared to spring into action if needed is one of the most valuable insurance policies you can have. **PB**

A SOUR EXPERIENCE



The following is a true story that illustrates the problems that can arise if you only pay attention to your most satisfied customers. I hope you can learn from this builder's mistake and protect your organization. (The builder I am describing will remain anonymous and some of the details have been changed to protect client confidentiality.)

A client came to us with some homebuyer satisfaction issues. We engaged in a series of survey touch points to have a continual gauge on the builder's performance in customer satisfaction. After receiving some results, the client told us about an incident that had prompted him to sign on with us.

He described a situation where a customer had a problem with a major mechanical in his new home. This issue was exacerbated by the fact the customer attempted to repair the original problem, causing further damage with the product. The homebuyer had contacted the builder and demanded in a threatening tone that the builder fix the problem. Needless to say, this was a tough customer from the beginning.

The builder examined the equipment and correctly determined that the failure was due to the buyer's intervention, causing a violation in the warranty. The builder had two options: fix the problem despite the voided warranty or reject the buyer requests and move on. The builder chose to move on and reject the buyer's request.

As you can imagine, the buyer became quite upset devised a way to seek revenge on the home builder. To publicize his dissatisfaction, the homebuyer filled his pickup truck with 10,000 lemons and dumped them all over his front yard, where he left them to rot. He then posted signs in his yard, calling his house a lemon, and contacted the local media, which responded in droves to his house.

His story was on the local TV news describing the failure of this builder to do its job. The PR damage to the company was significant. In fact, it cost the company many times the value of the disgruntled buyer's entire house.

As outrageous as this story is, there are worse stories of builders who were destroyed by poor public perception due to a PR disaster.

Anyone remember Sundance Homes out of Chicago? In this case the community was incited by a faction of disgruntled customers to petition city hall to prohibit the builder from receiving permits. Within two years, the company was sold to a public builder for the land positions and the home building side was completely dismantled.

The moral of the story? Builders who ignore their most unhappy customers might find themselves without any customers at all.

Paul Cardis is CEO of NRS Corporation, a leading research and consulting firm specializing in customer satisfaction for the home building industry. He can be reached at pacardis@nrscorp.com.

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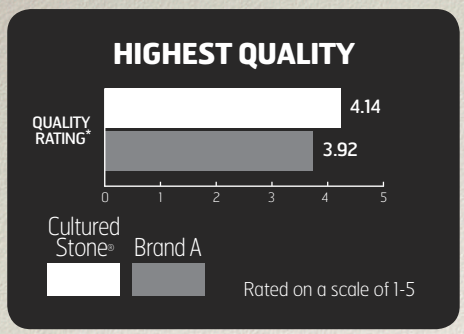

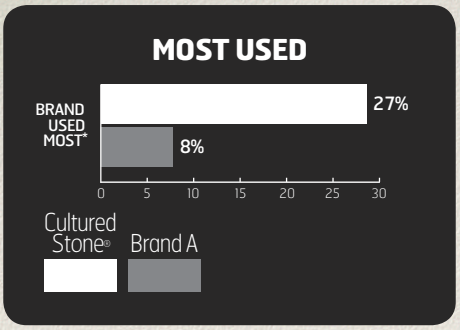

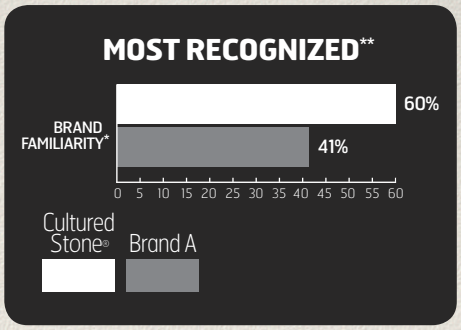

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>> BY **JOHN RYMER,** *NEW HOME KNOWLEDGE*

NEW HOME KNOWLEDGE

Cancelled Customers

John Rymer:

Nationally about 1 in 5 customers will cancel their home sale before closing. While that's not an enjoyable situation for either the customer or the new home sales professional, what should you do about a cancelled customer; simply move on or should you maintain an ongoing relationship?

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Frank Morro

Large builder in Florida
Annual sales - $18,000,000; 36 units

I think what sets me apart as a new home sales professional is to be empathetic with a customer who has cancelled. Let's face it, this is not an ideal situation for either the customer or the sales agent, but it happens. If you can listen to the homeowner, understand why it has happen, and let them know that you are important to them, then you can maintain an ongoing relationship with them in the months after the cancellation. I send my cancelled customers e-mails, cards, letters and pick up the phone and let them know what has happened in the community since they cancelled. More often than you think, their situation will change and you want them to know they are welcome to come back and become a buyer again in your community.

Stephanie Conley

Large Builder in California
Annual sales - $20,000,000; 65 units

Cancelled customers are a wonderful opportunity for future sales. Let's face it, you have invested a lot of time getting to know them. You know their needs, you know their priorities. But you may not know why they cancelled. It is often a very personal situation; an illness, the loss of a job, you don't always know. They often continue to want the home they have selected in your community.

I keep a log book of cancelled customers for purposes of follow-up. I spend a few minutes each month to catch up with them, keep that personal touch, let them know we'd still like to have them as a customer. When you do get a customer that is ready to come back to your community, it tends to be a really easy sale and you end up with a really happy customer because they know you went the extra mile to make them a homeowner.

Nancy Quinn

Medium-sized builder in Georgia
Annual sales - $14,000,000; 46 units

It is part of the business, one in five buyers will fall out before closing. The responsibility for the sales associate is to maintain a relationship with the customer in the months following the cancellation. It is important to realize that even if the cancelled customer never buys a home from you, they are an ideal candidate for referrals. Often they feel bad that they put the sales agent through all the hassle for no commission and are happy to see if they can help you in other ways.

I actually had a customer that cancelled twice. Both times, he could not make a decision and felt the timing was not right. Not only did he purchase and close on a new home in my new community this year, but he has also referred several customers to me who have also bought homes. I feel he did this because I continued to let him know that when the timing was right for him, we'd be happy to make him a homebuyer. It all about going the extra mile.

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No. 102

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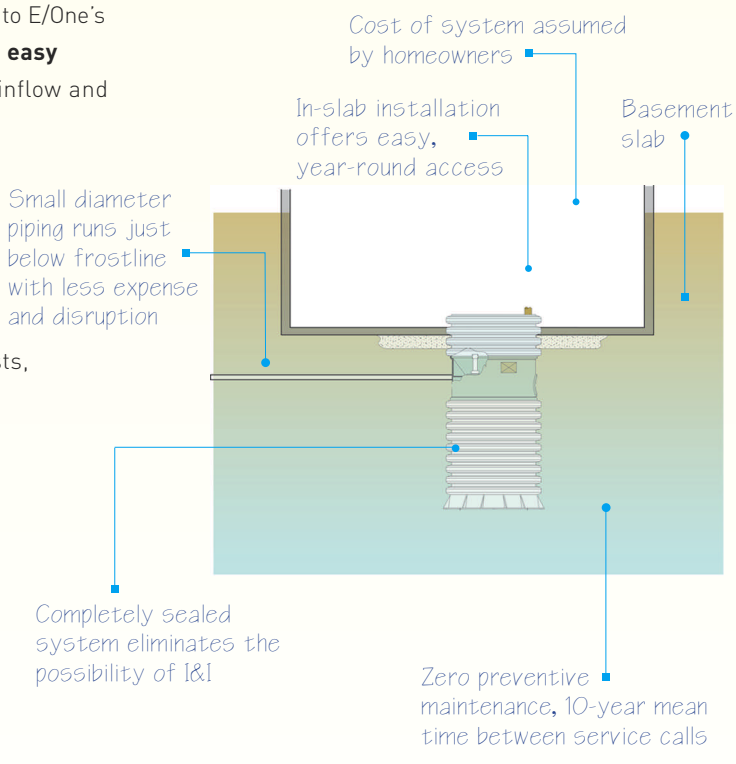

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Proactive Solutions

>> RHONDA JACKSON, STAFF EDITOR

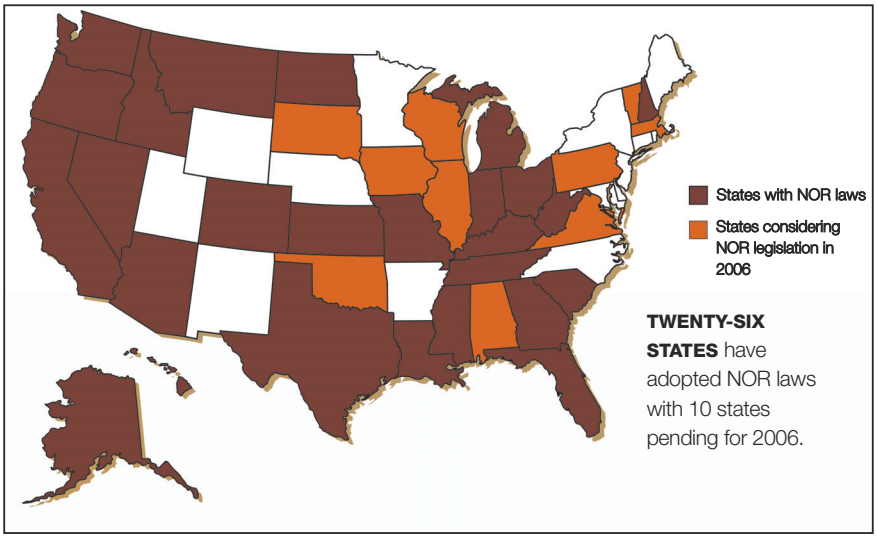
To Repair or not to Repair?

Notice and Opportunity to Repair Laws

Attached housing has long been the target of construction defect lawsuits. But detached housing communities nationwide have become increasingly embattled by construction litigation. According to data collected by NERA, an economic consulting firm, in Colorado alone the annual number of lawsuits increased by approximately 10 percent for the three-year period starting in 2000.

This string of lawsuits has led to rising, limited or, in some cases, unobtainable liability insurance for builders. As a result, builders face higher costs and consequentially a higher price tag for home buyers. According to the NAHB,

continued



TWENTY-SIX STATES have adopted NOR laws with 10 states pending for 2006.

For-Sale's Share of Multifamily Construction

THIS CHART ILLUSTRATES the breakdown between for-sale and for-rent multifamily starts and completion. Starting in 2002, the gap between starts and completions widened nearly tenfold.

>> BOB SPERBER, SENIOR EDITOR

RENTAL SET TO REBOUND

"We're expecting to see multifamily starts a little slower in 2006 than in 2005, but there are a couple of conflicting trends going on, Michael Carliner, NAHB economist says. First, there's too much condo supply that in the short term will be difficult to for the market to absorb. In just a few years, the number of properties sold to condo conversion specialists ballooned roughly tenfold to nearly 200,000 in 2005. Second, rental-housing production fell for two years running despite an overall rise in multifamily starts last year.

Carliner sees a "direct connection" between these events because condo developers bid-up land prices too high to justify rental developments.

Last year brought record sales of apartment buildings, but low rental vacancies and low supply could drive rental prices up and bring developers back to reap higher profits. Until supply rebounds, the same dynamics along with low unemployment may stimulate sales of all forms of ownership housing to offset single-family sector concerns.

"There's plenty of room for the rental and the ownership market to both increase," Mark Obrinsky, chief economist for the National Multi Housing Council, says. Over the next 10 to 15 years, he sees echo boomers driving more "steady state" growth than their baby boomer parents who continue to cause broad changes as they move through the "demographic python."

Proactive Solutions

To Repair or not to Repair? *continued*

in 2004, home builder liability was calculated to costs between $2,700- $15,000 per housing unit. NAHB estimates that for for every $1,000 price increase, 260,000 households are being priced out of the market.

Staying Out of the Courthouse

To stop the litigious wildfire, the NAHB is spearheading a national campaign to pass and or enhance existing Notice of Opportunity to Repair (NOR) laws in every state. NOR laws are aimed at giving builders the opportunity to repair or resolve legitimate home owner construction issues without going to court.

Strategic Alliances

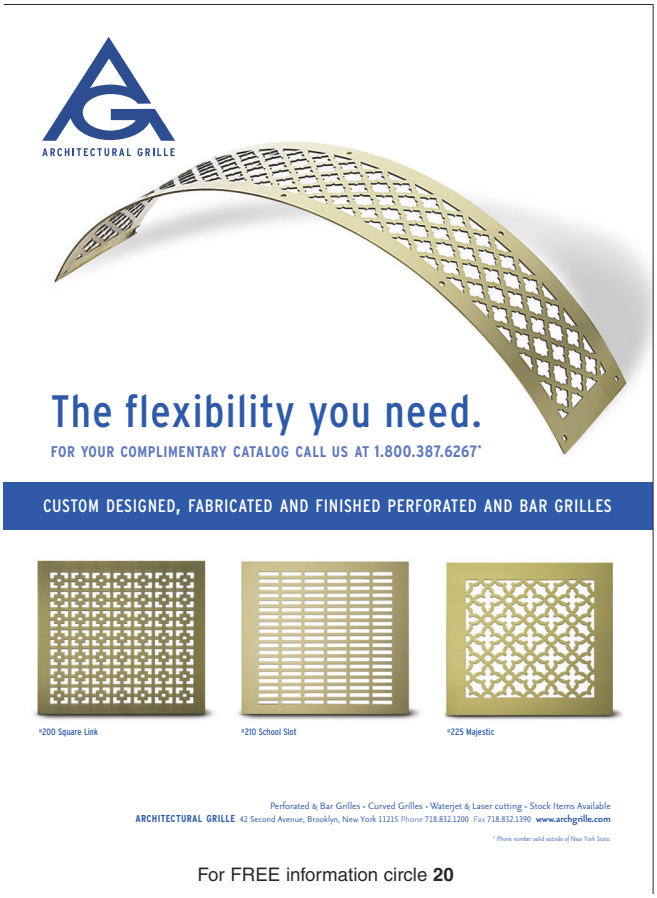
The NAHB, in collaboration with NAHB's High-Production Home Builders Council and state and local home builders associations, has created The Civil Justice Reform Initiative (the Initiative). The Initiative supports the lobbying activities and judicial educational programs that provide the impetus for the acceptance of NOR legislation.

Additionally, in 2002 the NAHB collaborated with the American Legislative Exchange Council (ALEC) to devise a model for NOR legislation. This model legislation has been successful in paving the way for adoption of NOR laws.

Too Early to Weigh In?

So far, the NAHB has succeeded in advancing the adoption of new NOR legislation in 21 states and the acceptance of enhanced NOR legislation in six other states.

It is too early to measure the national impact of NOR laws' on the home building industry, but preliminary findings back the premise that NOR laws can decrease the number of cases going to court.



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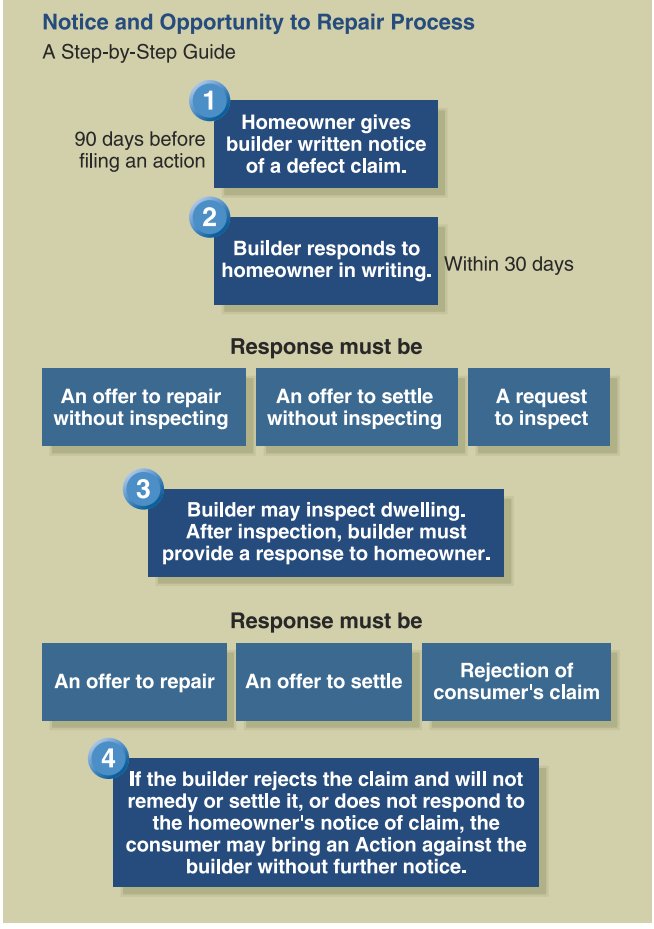

THE NOTICE AND OPPORTUNITY TO REPAIR is a four-part process that gives the home owner and the builder 90 days to resolve purported construction defect disputes before going to court.

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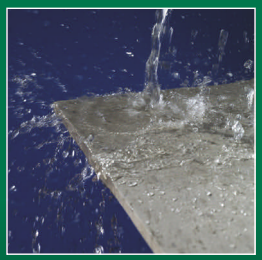

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*Industry standard mold tests, ASTM G21 and ASTM D3273

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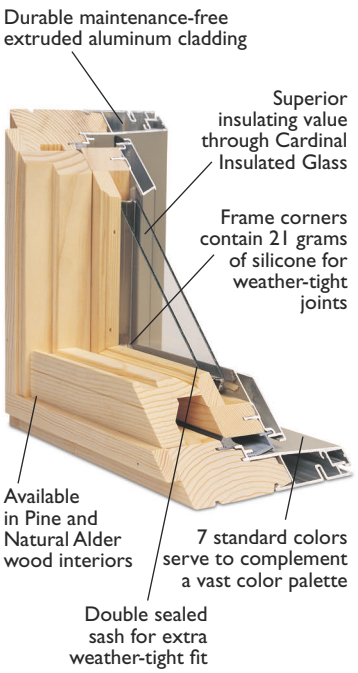

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>> BY **BILL LURZ,** *SENIOR EDITOR, BUSINESS*

Economic Outlook

>> HOUSING MARKETS

Investors' Retreat Clouds Housing's Future

Overheated markets are slowing fast as investors flee, but underlying strength of the national economy hints buyers may not stay away long.

In many red-hot housing markets, home sales began to slump last fall. It had to happen eventually. The pace of sales — and price escalations — was unsustainably high in many areas of the United States. But now, nervous builders across the country are asking: How long will this slowdown last? How bad will it get?

The answer depends on the characteristics of your local market. On the national level, most economists point to the buoyancy of forces that drive housing demand as indicators this sales slump may be more a price-correction hiccup. (A price correction keeps home shoppers from buying until they feel confident they know a fair price when they see one.)

How bad will it get where you are? Ask this question: What percentage of home sales in your market have been to investors more interested in flipping than moving in?

David Berson, the chief economist at Fannie Mae, sees a ton of statistics cross his desk in Washington, D.C. He says he, and most other analysts, underestimated the impact of investors on housing production over the past two years. That's one reason so many missed low with market forecasts. "Investor buying rose to unsustainable, record levels," he says. "We peg the 2005 investor component at 12 percent of purchase originations."

In hot markets like Sarasota and Naples, Fla., where house prices escalated 30 percent or more each of the last two years, the investor component probably ran closer to 20 percent. But that began to change last fall, and now housing investors are hard to find in Southwest Florida.

"There's potential for significant declines in home building in those markets where investor demand and prices have gone up most, especially in the absence of a lot of permanent in-migration," Berson says. "But you may see continuing strength in markets where prices are not as high or where the price increases are pushed by people moving there to take jobs, like Orlando as opposed to Naples.

"The national economy in the first half of this year will grow at an above-trend pace," he says. "Unemployment is down. Mortgage rates are still low. They're moving up, but not rapidly. Lots

Economic Outlook

of households are being formed. And the age structure of the population is still positive for single-family home demand. All these things prop up the market," Berson reasons, "even as the decline in investment buying takes demand away."

Berson says no one should be surprised sales have slowed. He predicts an eight percent decline in home sales for 2006. "We really don't know yet how severe this market correction will be, but the sales pace we saw in the third quarter of last year, when we had record monthly and quarterly totals, was not sustainable.

"There's a conflict now between the reduction in housing demand caused by investors leaving the market and the underlying strength of traditional demand drivers.

"On both coasts, affordability has fallen sharply in some high-priced markets," Berson says, "so underlying demand may be less there than in the middle of the country, where prices are lower and have not gone up as fast." The most overheated markets were concentrated in Florida, Southern California, Las Vegas, and — to some extent — Arizona, Berson reports.

The Fannie Mae maven is concerned about the trend of new housing inventories, but even there, he finds a silver lining. "The total inventory of new homes for sale set a record in January this year, against data going back to 1963. It's never been higher in more than 40 years. But there are three components to total inventory: (1) houses completed, (2) houses under construction and (3) houses sold, but not yet started.

"If the current inventory were mostly houses completed, we'd be in real trouble," Berson says, "but fortunately, builders have not been doing a lot of purely spec houses.

"The number of completed, but unsold houses is high, but nowhere near a record. The total inventory of houses for sale at the end of January was 536,000 units, but completed houses represented only 118,000 of that total. By contrast, houses under construction but not yet sold stood at 312,000 units. And those sold and permitted, but not started, totaled 107,000."

However, the current situation has similarities to conditions in the early 1990s, Berson warns. "We had another big increase then in investor buying," he says. "Actually less then than now. But the weakness in that housing economy was not just caused by investors pulling out of the market.

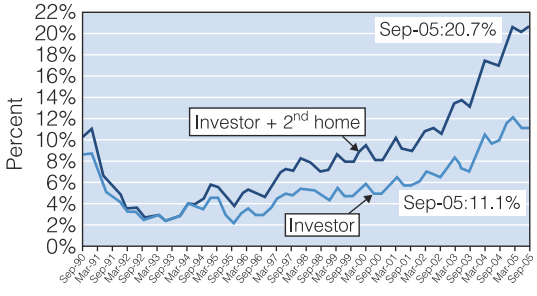
"We had a national recession in 1990 and 1991. We don't have a national recession now. That's not to say we won't have one, but it won't be this year," he says. "If it happens, it will be next year."

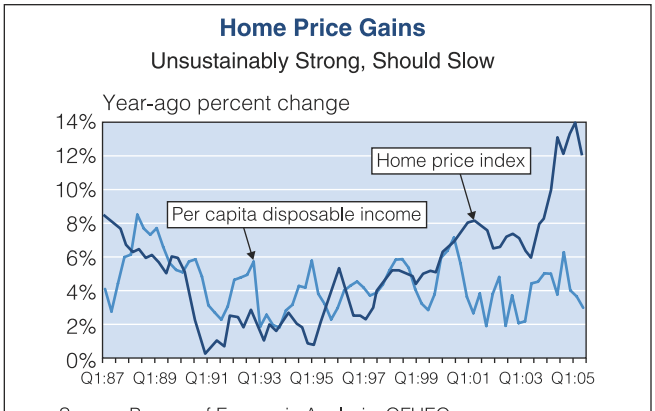
BEWARE FAR-OUT SITES

WHENEVER A LOCAL HOUSING MARKET CONTRACTS figuratively, it also contracts literally. If new home communities are farther out than buyers are willing to venture, then the farthest often feels the pain most. That's what California-based management consultant (and *GIANTS* columnist) John Burns says may be happening today: too many projects already under construction, far out in the boonies.

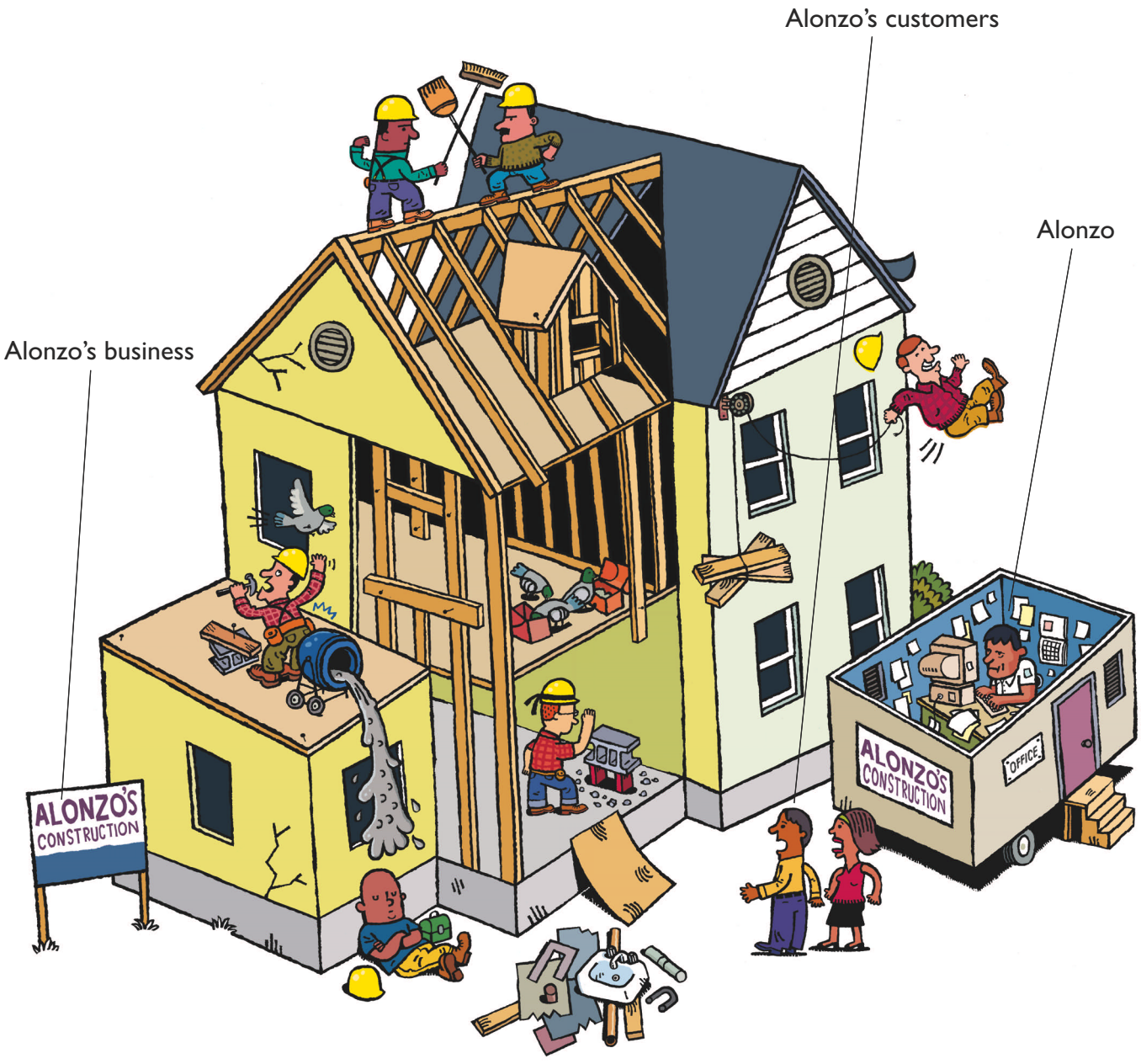
"Since land far from job centers is cheaper and more plentiful, most of today's new home communities are on the fringes of markets," Burns says. "Those outlying areas are now danger zones. At some point, those projects have to resort to discounting and incentives to lure buyers."

Burns cites Tampa, Fla., and Washington, D.C., as examples. "There's going to be excessive competition in those areas," he says, "and some builders will get hurt."





SHARE OF CONVENTIONAL MORTGAGES REPRESENTED BY ADMITTED INVESTORS AND 2ND HOME BUYERS (many of whom may also have been investors) ballooned above 20 percent last fall (left), driving home prices to unsustainable levels (right), well above disposable income. Now that investors are gone from many previously overheated markets, the question remains: will a price correction bring buyers back within months, or are we in for a year-long slump in housing sales?



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PROFESSIONAL BUILDER GIANT 400

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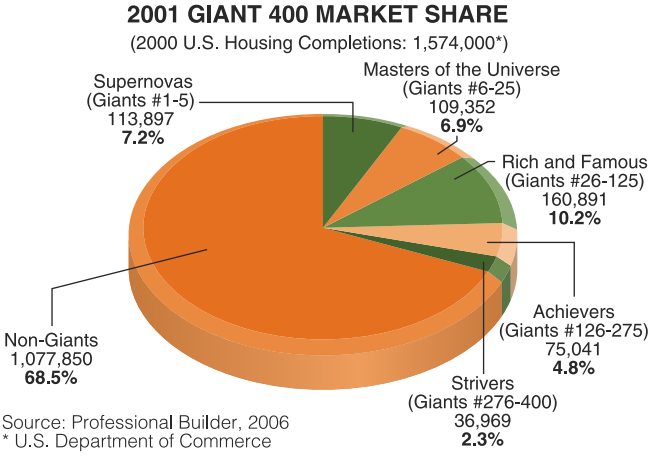
GIANT 2006 400

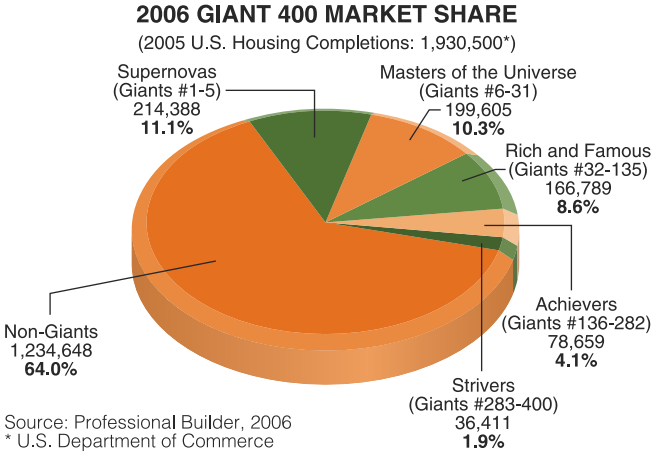
>> BY **BILL LURZ,** *SENIOR EDITOR, BUSINESS*

Topping Or Out? Just a Pause?

After 13 years of unrestrained growth, the fun may be ending for Giant builders... Then again, maybe not.

***Professional Builder's* 39th Annual Report of Housing's Giants** is, as always, a snapshot showing where the largest production builders stand at the end of the previous year. Four months into 2006, we have the perspective to now see 2005 as a bellwether year for housing's big boys by any measure. But we also see that 2006 is different. The big question is, how much?





BIGGEST GET BIGGER. 400 Giants are gaining market share against non-Giants slowly—adding 4.5 percentage points so far this decade, to 36 percent of housing completions in 2005. But housing industry consolidation is really concentrated at the very top of the rankings. Note that the *Supernovas* (top five builders) still eclipse *Masters of the Universe* in completions, even though the *Masters* now include 26 builders, compared to 20 in past calculations. (Six builders passed the $1 billion revenue mark in 2005, the new barrier for entry into *Masters*.)

The Breakdown

SUPERNOVAS
Giants #1-5

MASTERS OF THE UNIVERSE
Giants #6-31

RICH AND FAMOUS
Giants #32-135

ACHIEVERS
Giants #136-282

STRIVERS
Giants #283-400

Will 2005 turn out to be the peak of the Roaring 2000s, and maybe even the pinnacle of industry consolidation, or just a plateau on the way to '07 or '08? Over the next 10 pages, we'll show you how the industry — and the 400 builders that dominate it — changed in 2005, then tell you where we think 2006 is heading.

Big *Is* Better

For a hint at the scope of recent housing consolidation, take a look at the table comparing Giant 400 closings to total U.S. housing completions over the last 10 years (below). In 2005, U.S. Commerce data shows completions hit 1.93 million, the highest level since 1973 (when baby boomer entry into housing ownership led to 2.1 million completions.) And the Giant 400 closed 36 percent of that total, up from 21 percent a decade ago. And here's a shocker: in 1995, all 400 Giants closed 275,075 homes. This past year, the top 10 builders alone closed 288,435. While profitability unquestionably matters more, bigness obviously does have its merits.

In 2002, *PB* began separating the Giant 400 into four revenue groups, along lines of demarcation in the way the builders in each group conduct business. It's clear to us that the smallest Giants — *Strivers* — are much closer in operational methods to non-Giants than to the public behemoths at the top of the rankings. Last year, we added a fifth category— *Supernovas* — because we now see the five largest Giants separating themselves from even the *Masters of the Universe* below them. This year, we've made a more subtle change in the groups, establishing revenue thresholds for each, rather than the somewhat arbitrary divisions of previous years.

Henceforth, the boundary between the *Masters* and the *Rich & Famous* will be $1 billion in revenue. To make it into the *Rich & Famous*, a builder will now need to hit $200 million in revenue. And the barrier between *Achievers* and *Strivers* will fall at $75 million, where we see significant changes in levels of management, number of communities, and (often) multi-market operations.

Challenges & Opportunities

RICH & FAMOUS CHALLENGES: "Materials and labor shortages, attracting and retaining a competent labor force, expecting interest rates to rise."

RICH & FAMOUS OPPORTUNITIES: "Continuing to grow, breaking ground on first bachelor housing project."

These quotes are chosen from respondents' answers to questions in the PB Giant 400 Survey. Builders are identified only by category.

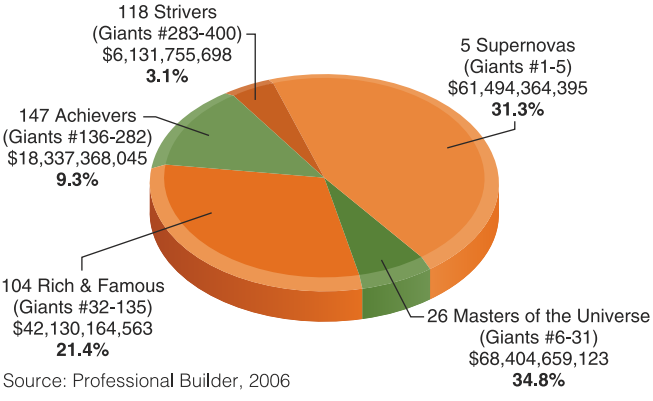
10-YEAR SHARE OF MARKET

Year	Total U.S. Housing Completions*	PB Giants Total Closings	Giant 400 Share of U.S. Total
2005	1,930,500	695,852	36.0%
2004	1,841,900	642,503	34.9%
2003	1,678,000	582,249	34.7%
2002	1,649,100	530,734	32.2%
2001	1,570,400	512,217	32.6%
2000	1,574,000	496,150	31.5%
1999	1,604,000	462,106	28.8%
1998	1,474,000	413,939	28.1%
1997	1,400,000	346,529	24.8%
1996	1,413,000	321,490	22.8%
1995	1,313,000	275,075	21.0%

*U.S. Department of Commerce
Note: 2005 completions are revised/1995-1998 Gov't. figures are rounded
Source: Professional Builder, 2006

GIANT 400'S SHARE of total housing market has risen steadily for a decade, but smaller builders still account for 64 percent of completions. Most consolidation happens inside Giant 400, when the largest companies acquire smaller Giants. Such deals are now harder to find. Public Giants may find pace of growth of the past decade hard to sustain.

TOTAL 2005 NEW HOUSING REVENUES
(Giant 400 Total: $196,498,311,823)



Source: Professional Builder, 2006

TOTAL REVENUES of the Giant 400 grew to $196.5 billion in 2005, up from $159.8 billion in 2004. More significantly, the *Supernovas* now account for nearly a third of that total, so those five public companies are closing on the revenue share of the *Masters of the Universe*, which includes 26 companies. The public *Supernovas* face a challenge in 2006 to meet Wall Street's expectations of sustained double-digit growth in revenues and profits as U.S. housing markets show signs of flattening.

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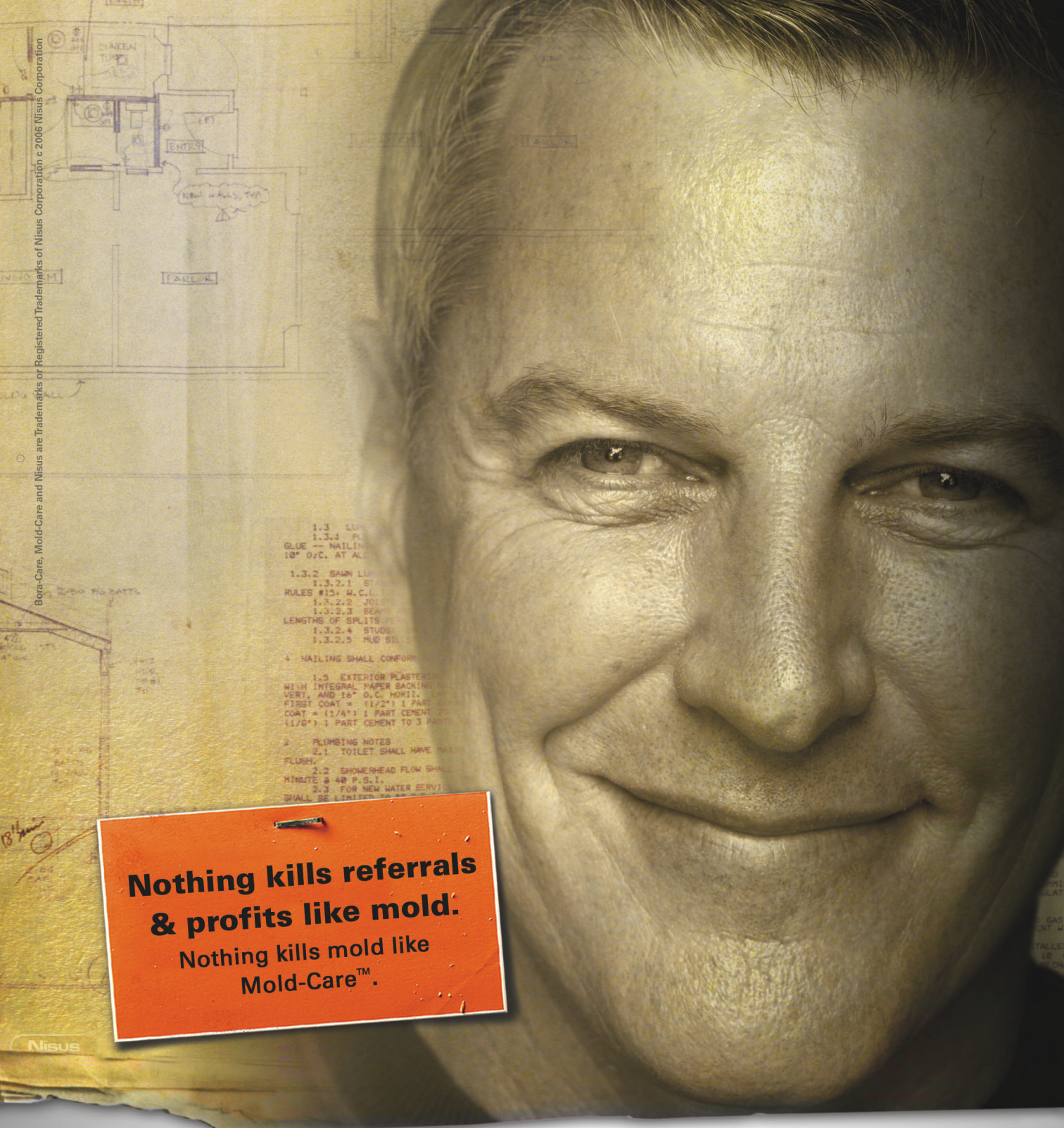

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Publics Diversify Products

Wall Street's push, splintering housing demand fuel movement.

It's hard to turn an aircraft carrier. You can see evidence of that challenge in the graphs on this and the following page. While all high-production builders are still producing more single-family homes in suburban subdivisions than anything else, the five *Supernovas* have, by far, the highest concentration in that location and product type.

"It's not just that it's hard for them to turn the ship," says Kimball Hill Homes chairman David K. Hill. "Traditional suburban subdivisions are also where they have their biggest competitive advantage. That's what their machines are set up to produce."

Still, the *Supernovas* are changing, as are all the public builders, and we can't help thinking Wall Street's appetite for growth is a big part of it. One of the notable changes of the past two years is the vigor of public builders' movement to diversifying locations and product. They say it's to meet fragmenting housing demand. While that's certainly true, there's also evidence that public builders need to find new ways to meet Wall Street's insatiable demand for growth. Just building subdivisions at four units to the acre won't get it done. "There's what I call a 'rubber band effect' evident in the market," says Hill. "You can only build off into the countryside, away from job centers, so far before the rubber band snaps, and people start looking at housing options back in the city. That's what's happening now."

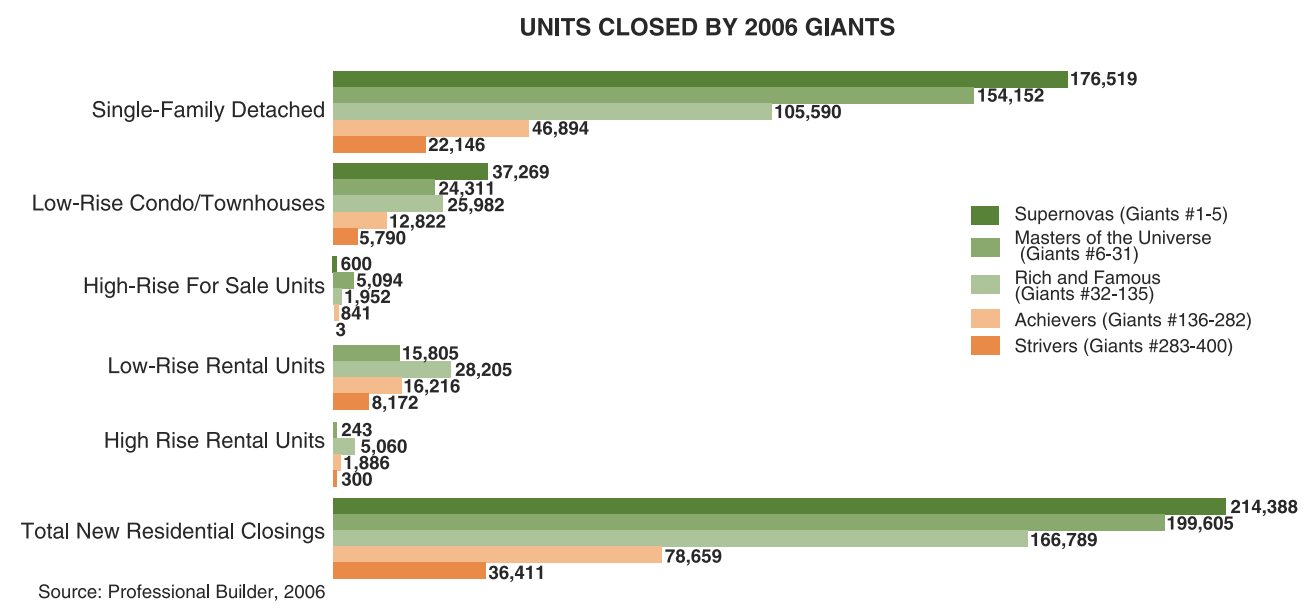
Hill says within three years, Kimball Hill's production will move to more than 12 percent high-density urban infill — from less than one percent today.

In our data, the *Masters of the Universe* like Kimball Hill show significant movement toward urban and infill locations, but 16 of the 26 builders in that category are, unlike Kimball Hill, publicly held. Toll Brothers chairman Bob Toll denies it has anything to do with pleasing Wall Street. "Public builders don't care about product diversification," he says. "We build this stuff because there's demand for it.

HOW RANKINGS ARE CALCULATED

The *Professional Builder* Giant 400 ranking is a two-step process. First, the top 400 companies are chosen on the basis of housing units closed, to identify true production builders. This year, the 400th company closed 154 homes in 2005. Next, the 400 are actually ranked on 2005 housing revenues. Revenue is, after all, where the rubber meets the road.

Experience shows this two-step process does the best job of identifying Housing's Giants. It does, however, eliminate some builders with revenues greater than the 400th Giant Usually, these are very high-end, semi-custom builders.



THE LARGEST BUILDERS STILL PRODUCE MOSTLY SINGLE-FAMILY HOMES, but movement into higher density housing is pronounced, driven by both affordability issues and lifestyle-related demand. Look for detached homes at much higher densities (5-10 units per acre) as the next big innovation.

"There's a lot of action now in high-density," Toll says, "from five or six units to the acre all the way up to 50 or 60 units an acre. I think it's intelligent. By clustering housing, we allow room to amenitize sites in many ways that make the lifestyle more appealing."

Challenges & Opportunities

SUPERNOVA CHALLENGES: "Attracting, hiring and retaining the best people, sourcing good land, supply chain simplification."

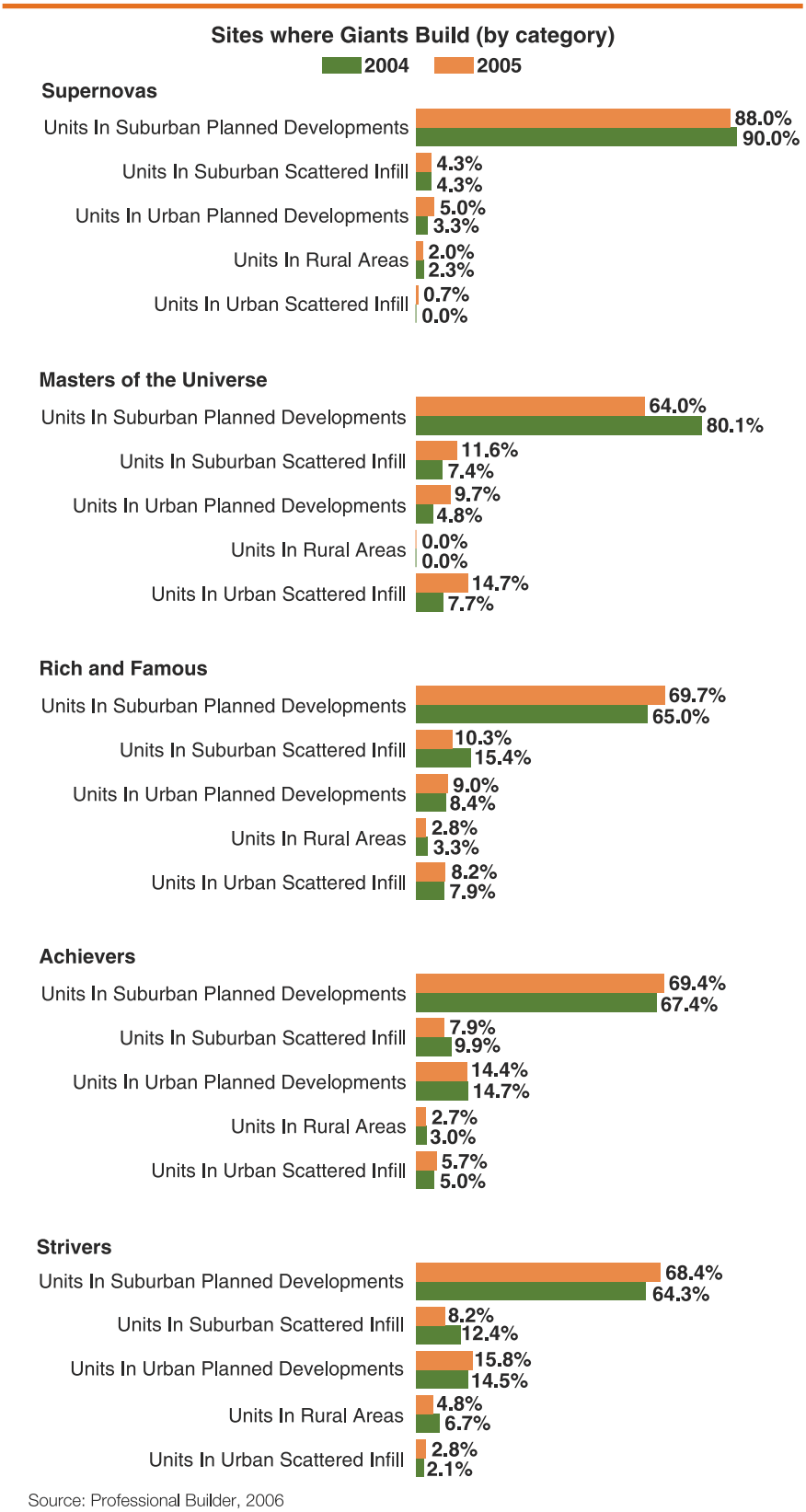
MASTER OF THE UNIVERSE OPPORTUNITIES: "Build land positions with good deals, diversify product lines into urban and active adult communities, build brand name."

ACHIEVER CHALLENGES: "Continue to sell new homes in a depressed economic climate, compete with national builders (as a local builder)."

ACHIEVER OPPORTUNITIES: "Taking advantage of our reduced cycle time, increasing Internet marketing to take advantage of lower marketing costs and further…corporate identity, (more) target marketing efforts to…define potential."

RICH & FAMOUS CHALLENGES: "Potential for softening market in California, rapid growth (elsewhere), rising costs."

RICH & FAMOUS OPPORTUNITIES: "Serving a new customer base, gaining a deeper understanding of new markets, developing strong subcontractor relations in new markets."



Source: Professional Builder, 2006

SUPERNOVAS ARE DIVERSIFYING, but are still most rigidly focused on single-family homes in suburban subdivisions. *Masters of the Universe* are leading charge into higher density products.

High-Rise Fraught with Risk

Many Giants are now building condo towers, but it's a business filled with danger.

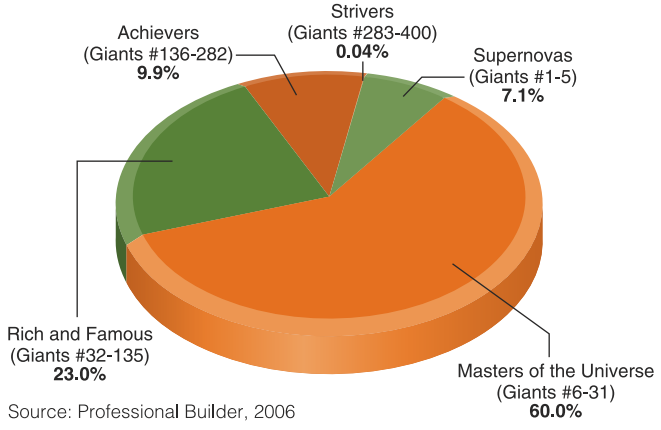
Who knows how deep the current downturn in home sales will go? The crystal ball is cloudy for everyone. But one thing is clear: many Giants are rushing into high-density infill development — including high-rise condo buildings — just as housing demand is faltering, and that's a dangerous move.

High-rise condos have much in common with rental apartments, including an easy propensity for over-building. When there's demand that everyone can see, too many builders may rush to meet it, and two years later there's a surge of inventory. A lot can change during the 18 months to two years it takes to build a high-rise.

Unlike a suburban subdivision, where a builder can slow down — or even stop construction — a condo tower is an all-or-nothing proposition: "Once you get past the foundation, and start putting bricks in the air, you're going the whole way," admits Toll Brothers chairman Bob Toll, "whether people are canceling contracts or not. You can't stop a high-rise."

The demographics of housing demand indicate an upswing in urban projects for at least the next ten years, risk or no risk.

HIGH RISE FOR-SALE UNITS CLOSED BY GIANT 400



Source: Professional Builder, 2006

MASTERS OF THE UNIVERSE (GIANTS 6-31), which includes majority of publicly-held home builders, have a big lead in closing high-rise condos, but projects under construction indicate *Supernovas* (Giants 1-5) will soon find traction in this market segment.

TOP 10 TOWNHOUSE & LOW-RISE CONDO LEADERS

2006 Rank	Builder	City	ST	Townhouse/ Condo Closings
1	Pulte Homes, Inc. *	Bloomfield Hills	MI	12,776
2	D.R. Horton, Inc.	Ft. Worth	TX	8,735
3	Lennar Corporation*	Miami	FL	8,243
4	Centex Corporation	Dallas	TX	7,515
8	NVR, Inc. *	Reston	VA	4,136
44	Pasquinelli, Etal.	Burr Ridge	IL	3,277
7	Hovnanian Enterprises, Inc.	Red Bank	NJ	3,214
35	Tarragon Corporation	New York	NY	3,081
12	Standard Pacific Corp.	Irvine	CA	2,742
61	Epcon Communities Franchising, Inc.	Dublin	OH	2,677

* Estimated
Source: Professional Builder, 2006

SUPERNOVAS (GIANTS 1-5) already lead in townhouse and low-rise condo closings, with the notable absence of No.5 KB Home. *PB* (so far) has no statistical category for mid-rise. Low-rise goes up to four stories. Five stories or more are high-rises.

TOP 10 HIGH-RISE FOR-SALE BUILDERS

2006 Rank	Builder	City	2005 High-Rise Sale Closes	% Change Over 2004
22	MCZ Development	Chicago, IL	3,670	-7.8%
53	Wood Partners	Marietta, GA	671	148.5%
3	Lennar Corporation*	Miami, FL	600	-
17	WCI Communities, Inc	Bonita Springs, FL	563	6.0%
18	Taylor Woodrow, Inc.	Bradenton, FL	531	5.4%
89	Magellan Development Group	Chicago, IL	410	71.5%
30	JPI	Irving, TX	330	247.4%
268	The IDI Group Companies	Arlington, VA	278	-20.1%
136	The Enterprise Companies	Chicago, IL	230	-39.3%
128	The Cornerstone Group	Coral Gables, FL	181	-

Source: Professional Builder, 2006

CHICAGO-BASED MCZ DEVELOPMENT is still the leader in high-rise closings. MCZ peaked at No. 21 in rankings last year, but dropped a spot this year. Note that *Supernova* Lennar Corp. hit the top 10 for the first time with 600 closings in a Miami joint venture.

Public v. Private

Big, publicly-held Giants grab most of the headlines, but the top private builders are growing both top and bottom lines—without dancing to Wall Street's tune.

Ask America's top private home builders if going public is a good idea and you're likely to get a smile and a cryptic, "Not for us." Still, the debate rages — public v. private — and each side has plenty of arguing points.

The public companies are on a 13-year run of unprecedented growth. Fueled by public capital and driven by Wall Street's unrelenting demand for double-digit growth, five *Supernovas* atop our rankings are poster boys for the publics. In the first six years of 2006, Pulte has grown from 27,781 closings and revenue of $4.26 billion in 2000 to 45,630 closings for $14.37 billion in 2005. No.2-ranked D.R. Horton's growth is even more impressive, from 18,942 closings and $3.57 billion in 2000 to 51,383 closings for $13.72 billion in 2005. That's a 284.3 percent bump in revenues. The first builder to top 50,000 closings in a single year, Horton is now operating in 77 markets in 26 states.

But even facing competition from these massive *Supernovas,* most large, private builders have lost interest in an IPO. Wall Street is too tough a task master, they say, and they're doing fine without the aggravation — and risk — of dealing with stock analysts and the market's short-sighted focus on quarterly earnings.

Masters on the Move

Glance down the rankings to what's happening in the ranks of the *Masters of the Universe.* It sheds light on the public versus private debate. The *Masters* is our billion-dollar club and last year 20 builders made it. This year, the club has 26 members, 16 of them public, and some interesting movement in the ranks.

The most impressive is Toll Brothers' jump from No.10 to No.6 (see below). The Horsham, Pa.-based public company, a specialist in luxury homes, has the highest average sale price among all the publics ($660,000), and held that average despite a big move into attached and higher-density urban products carrying lower price tags.

Near the top of the rankings, it takes big growth just to stay on the ladder. For example, Red Bank, N.J.-based Hovnanian Enterprises grabbed leadership in acquisitions during 2005 by buying four builders, three of them Giants (Town & Country Homes in Chicago, ranked No. 57 last year; First Home Builders of Florida, ranked No. 85; and Cambridge Homes in Orlando, ranked No. 123). The firm went from 14,586 closings for $4.08 billion in 2004 to 17,783 closings for $5.71 billion in 2005. Hovnanian seemed a cinch to jump NVR to No. 6. It didn't happen. Because of Toll's astounding move, Hovnanian stays at No.7 even though it leapfrogged NVR, which dropped two spots despite adding 1,038 units and $98 million in revenue.

In all, eight public companies in the *Masters of the Universe* dropped in the rankings this year, even though all grew significantly. For example, Atlanta-based Morrison Homes grew from 4,422 units and $1.29 billion to 4,921 closings for $1.54 billion. Yet Morrison lost a spot—from No.20 to No.21.

TOLL JUMPS FOUR GIANTS — TO NO.6

It's easy to think price appreciation accounts for the bulk of Toll Brothers' rapid rise from No.10 in last year's *Professional Builder* Giant 400 to No.6 this year. After all, this specialist in move-up homes has the highest average sale price of all the public builders—$660,000 in fiscal 2005 (ending October 31). But that's not the whole story.

Toll's average sale price actually advanced only marginally from 2004 to 2005, but closings grew from 6,627 in 2004 to 8,769 in 2005. Toll leaped M.D.C., Beazer, NVR and acquisitive Hovnanian, even though this firm mostly disdains growing via acquisition. (A deal closed in June for Landstar Homes' central Florida division added less than $100 million to Toll's 2005 housing revenues of $5.75 billion.)

Toll's growth is more about product diversification than anything else. The firm is committed to meeting demand for luxury homes for affluent Americans wherever it leads. That means adding upscale empty nester attached and detached homes to the existing arsenal of estate move-up product. And developing active-adult, age-qualified communities as well as resort country clubs, marinas and urban low-, mid-, and high-rise condo projects.

"We'll grow our product lines and our geographic coverage," says chairman Bob Toll. "We just expanded into the Twin Cities in Minnesota, and we're looking at Houston since we're already in Dallas, San Antonio and Austin."

Toll acknowledges that urban, high-density is key to his strategy, meeting burgeoning demand from affluent Americans to live where the action is.

"It's remarkable that Wall Street has decided home builders today are worth half of what we were worth last year," Toll says, "just because some overheated markets are suffering a little pain. The market seems to believe we're heading back to the revenues and profits we had in '03. I don't see it, not just because of the aging population and increase in the numbers of affluent buyers — the ones we target — but because there are more buyers at every price.

"The people predicting a serious contraction of housing are going to be wrong," Toll says. "Even if mortgage rates go to seven and a half percent, we'll still do plenty of business."

It's this conundrum that leads many Wall Streeters to look for more mergers of public companies, like Pulte's 2001 Del Webb deal, even though stock analysts rue the impact of massive amounts of goodwill (the amount by which purchase price exceeds book value) such a deal would bring to the acquirer's balance sheet. The possibility of mergers may be rising due to slim pickings among large private builders on the acquisition front.

In the past, these firms sold because of the private builder's urge to retire, and need for a liquidity event to fund retirement. Today, sellers are not seeing the price they want because the housing market is softening, and publics fear the wrath of stock analysts on goodwill.

Private Poster Boys

Walnut, Calif.-based Shea Homes is a model many large, private builders are now following. The largest private builder, Shea is also a major land developer, employing land strategies that take time to reach fruition but result in greater gain. Shea even shows an inclination to form strategic alliances with publics to do what they can't — like carrying land, which public builders avoid to keep those costs off their balance sheets.

Shea is a fixture at No.13 in our rankings this year with $3.06 billion in 2005 housing revenues (and $176.4 million in "other income," including land sales). While Shea remains the largest private, it's not the biggest mover in the *Masters of the Universe*.

The biggest jump to the highest new rank was made by Newport Beach, Calif.-based WL Homes, moving from No. 26 to 20, on a gain from 2,045 to 2,891 units — for 2005 revenues of $1.63 billion, up from $976.8 million in 2004. WL follows a similar, long-range strategy as Shea, but adds a focus on infill and urban redevelopment.

Another major mover is Melbourne, Fla.-based Mercedes Homes, which jumped from No.30 to 23 on a 24.8 percent increase in closings, mostly in Florida.

What many large, private builders now see is that wherever the big publics go, there's a niche for big private builders to form strategic alliances and joint ventures with them to take on roles Wall Street wants publics to shun.

That's why they smile when they say they don't want to go public.

TOP 10 PUBLIC BUILDERS

2006 Rank	Top 10 Publicly-Owned Giants	2000 Closings	2005 Closings	% Change
1	Pulte Homes, Inc.	27,781	45,630	64.2%
2	D.R. Horton, Inc.	18,942	51,383	171.3%
3	Lennar Corporation	22,560	42,359	87.8%
4	Centex Corporation	21,767	37,876	74.0%
5	KB Home	22,847	37,140	62.6%
6	Toll Brothers, Inc.	3,945	8,769	122.3%
7	Hovnanian Enterprises, Inc.	4,367	17,783	307.2%
8	NVR, Inc.	10,055	13,787	37.1%
9	Beazer Homes USA, Inc.	8,088	18,401	127.5%
10	M.D.C. Holdings, Inc.	7,484	15,307	104.5%

Source: Professional Builder, 2006

TOP 10 LARGEST PRIVATE BUILDERS

2006 Rank	Top 10 Privately-Owned Giants	2000 Closings	2005 Closings	% Change
13	Shea Homes	4,927	6,901	40.1%
20	WL Homes LLC aka John Laing Homes	2,368	2,891	22.1%
22	MCZ Development	198	4,020	1930.3%
23	Mercedes Homes, Inc.	1,927	5,714	196.5%
24	Woodside Group Inc.	1,721	3,676	113.6%
25	Trammell Crow Residential	7,012	9,784	39.5%
27	David Weekley Homes	3,245	4,612	42.1%
28	Kimball Hill Homes	3,017	3,881	28.6%
30	JPI	13,000	7,425	-42.9%
31	The Drees Company	2,391	2,968	24.1%

Source: Professional Builder, 2006

AS TOP 10 PUBLIC BUILDERS (above) ride Wall Street capital to unheard of heights, many large privates (below) find growth, profits—and less risk—away from that limelight.

SKYROCKET IN FLIGHT

What's got into Martin Ginsburg? He's acting more like Donald Trump. But he's proving you don't have to be a *Supernova* to put up impressive numbers.

Valhalla, N.Y.-based Ginsburg Development, for years a small production builder of impeccably planned luxury communities (detached homes and townhouses), mostly in suburban Westchester County, N.Y., has suddenly taken off—rising 103 positions in the Giants rankings, moving into multi-market operations and new, high-density products that will even include a high-rise condo building.

Ginsburg is now Giant No.122, with $217.3 million in 2005 housing revenues.

"We closed 19 single-family houses last year ($28 million) and 349 attached homes ($189.3 million)," Ginsburg says, "mostly townhouses, but we started delivering some mid-rise condos toward the end of the year...four stories over parking. We're in 10 locations now, and we are growing. We're in Connecticut, as well as the two counties north of Westchester. We're doing a small high-rise condo building in New York City."

He sees a trend toward fighting sprawl, and intends to be part of the solution rather than the problem, but acknowledges approvals for higher densities are tough in the Northeast: "Our reputation and the quality of our past communities helps," he says. "Much of what we're doing now is mixed-use. Our Haverstraw (N.Y.) project is 850 units with a mile and a half of frontage on the Hudson River. The density there is about 20 units to the acre."

And if you think this isn't an empire in the making, take a look at Ginsburg's "other revenues" entry: $358.5 million. "We're not a typical home builder," Martin Ginsburg understates drolly. "We have a lot of property management people. We've made some changes in portfolio — sold apartments to go into shopping centers instead."

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Publics' Profits at Peak

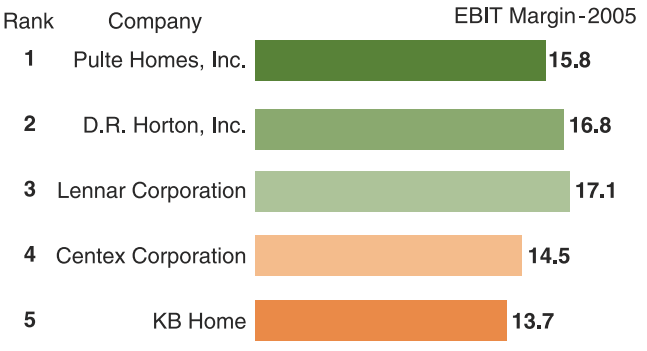
Public builders don't separate land and home building profits, but their 2005 numbers are still impressive.

The public home builders' filings with the federal Securities and Exchange Commission show these companies made their best margins ever in 2005, even though they don't separate land profits from those made by building and selling houses. It will be a tough act to follow this year.

"The publics are secretive about costs," says management consultant and *PB* columnist Chuck Shinn. "They don't break out land costs or the contribution land appreciation makes to profits. They don't want investors to think about it, but land appreciation is a big part of what they make from selling a home."

The survey questionnaire upon which *PB*'s Annual Report of Housing's Giants is based includes a section on how costs and profit break down for the average house the builder sells. Most private builders fill it out completely. Unfortunately, we

SUPERNOVA PROFITS



Source: UBS Investment Bank, New York, NY

SUPERNOVA 2005 AVERAGE EBIT MARGIN rose by nearly three percent over that of 2004. But this year may be different, if sales slowdown continues to pressure margins.

26.6%
Supernova's average Gross Profit Margin

SUPERNOVAS EXPANDING

Residential Building Activity	Supernova Giants 2005 activity as % of Total Giant 400 bldg. activity	Supernova Giants 2000 activity as % of Total Giant 400 bldg. activity
Single Family Detached Revenues	33.3%	25.8%
Single Family Detached Closings	34.9%	28.5%
Condo/Townhouse Revenues	36.0%	28.7%
Condo/Townhouse Closings	35.1%	37.4%
High-rise Sale Revs.	0.0%	0.0%
High-rise Sale Closings*	7.1%	0.0%
Low-rise Rental Revs.	0.0%	0.0%
Low-rise Rental Closings	0.0%	0.0%
High-rise Rental Revs.	0.0%	0.0%
High-rise Rental Closings	0.0%	0.0%
Total Housing Revenues	31.3%	23.2%
Total Closings	30.8%	23.0%
Total Gross Revenues	30.5%	23.5%
Other Revenues	23.8%	26.3%
Supernovas' Avg. Gross Profit Margin	26.6%	-
395 Giants (#6-400) Avg. Gross Profit Margin	24.4%	-
Supernovas' Avg. Price per Closing (all units)	$286,837	$180,703
395 Giants (#6-400) Avg. Price per Closing (all units)	$280,403	$178,708

*2005 data includes units related to unconsolidated joint ventures whose revenues are not included in totals
Source: Professional Builder, 2006

SUPERNOVA MARKET SHARE, as a percent of total Giant 400 production, is rising in virtually every product category where the firms are active. Shown here are the percentages for 2005, compared with those for the first year of this decade, 2000.

Publics' *Profits at Peak continued*

can't present that data for the *Supernovas*, since only two of the five — Centex and D.R. Horton — complete that section each year. The others refuse, and that makes an already small sample unusable, since we promise to protect the secrecy of every individual response and use our survey results only in aggregate.

But the public Supernovas' Earnings Before Interest and Taxes (EBIT) margins are in the public realm, so at least we can report their overall profitability. The five juggernauts in the Supernova category averaged EBIT margins of 15.58 percent in 2005, up from 12.76 percent a year ago. The leader among the Supernovas is Lennar with an EBIT margin of 17.1 percent, as reported by Wall Street stock analyst Margaret Whelan of UBS Investment Bank. But the real EBIT margin benchmarks among the public builders are in the Masters of the Universe category: No.8 NVR at 21.0 percent and, best of all, No.6 Toll Brothers at 24.8 percent.

NVR: A BREED APART

Of the public builders, one is treated differently by Wall Street— Reston, Va..-based NVR Inc, which is headed by chairman Dwight Schar. Wall Street rewards NVR with higher share prices for a reason. The reason also gives NVR an edge if the current housing slump continues.

NVR disdains geographic growth to concentrate on only its share of 20 existing mature markets in the East. Maximizing inventory turns and return on capital cuts risk. NVR buys only finished lots, controls land with lot options, through developers. As a result NVR hits these milestones, as reported by Credit Suisse stock analyst Ivy Zelman: Turns inventory more than four times a year (industry average, 1.3). Return on equity is 82 percent (industry average, 30 percent).

"Toll Bothers' return on invested capital is the best of the growth-oriented builders at 22 percent," says Zelman, "but NVR is off the charts at 69 percent."

Even Small Private Builders Can Compete

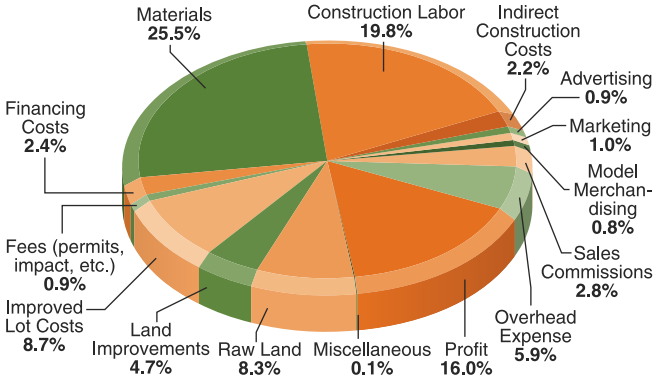
High-profit performers — and low — can be found in every Giant category, even though survey results seem to show a direct correlation between size and profitability.

Peruse the average cost and profit charts across these two pages and you'll see a general trend that's consistent, year after year. Profitability seems to correlate to size. It works that way across a large statistical sample, but this magazine also has a long history of documenting high profit performers at every imaginable level of production.

"We do a Cost of Doing Business survey every year," says *PB* contributor Emma Shinn, "and high profit companies come in every size, from different geographic markets, and build at many price points. The common denominator is good management, not whether the company is big or small, public or private."

Even though public builders are more profitable today than ever before, many private *Strivers* (Giants 283-400) are quietly beating the publics' EBIT margins, even if only their bankers and the IRS know it. So before reading much into the way profit on an average house correlates to builder size, keep in

COST BREAKDOWN OF MASTERS OF THE UNIVERSE (GIANTS #6-31)



Source: Professional Builder, 2006

MASTERS OF THE UNIVERSE (GIANTS 6-31) all have $1 billion or more in revenue, which should produce strong purchasing power. Yet the average house cost breakdown shows a higher materials cost percentage than that of the Rich and Famous (Giants 32-135). Still, Masters do have the highest average profit (16.0 percent).

mind the vagaries that creep into averages. For instance, the largest Giants are in the smallest group. The *Masters of the Universe* has only 26 builders, while each of the other groups has more than 100 builders. The *Masters* also has 16 public companies, some of which do not fill out the cost breakdown section completely. And we know most public companies do not separate raw land and development costs.

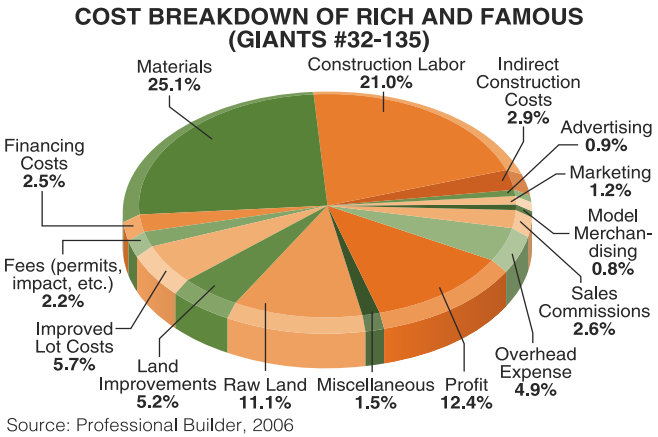
Still, it seems logical to find a general correlation between size and profitability. After all, that's the message public builders repeat ad nauseam on Wall Street — that size yields purchasing power and professional management that impacts the bottom line. And overall, there is a consistent pattern in this survey showing materials and construction labor costs lower for the larger builders, indicating a degree of purchasing power.

In this year's survey, profits are higher and labor costs lower for each successive category of the Giant 400, from *Strivers* right through to *Masters of the Universe* (Giants 6-31) But there's an anomaly: the *Masters* average for materials costs (25.5 percent) is actually higher than that of the *Rich and Famous* (Giants 32-135). But when you get to the larger statistical samples — *Achievers* (Giants 136-282) and *Strivers*—the smallest builders have higher materials costs.

This survey's cost breakdowns also do not conform precisely to *PB* columnist Chuck Shinn's cost ratio targets. Many private builders use those targets, though, and answer the questions as they understand Shinn's ratios.

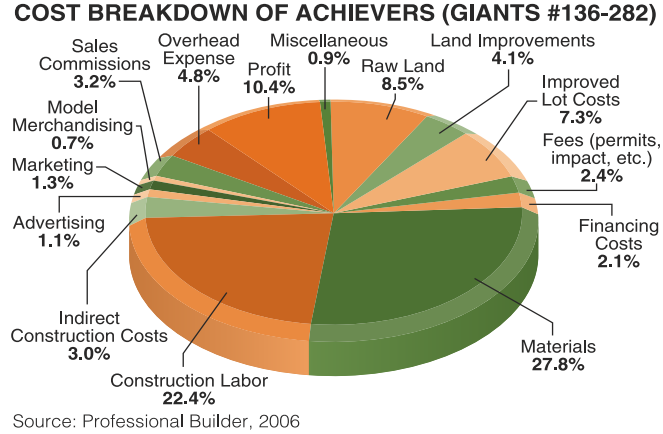
Shinn disciples also adhere to his principle that land should be treated as a separate profit center, so they take 30 percent or more profit from the land before transferring it to their home building operations. Thus, many of the private builders in this survey are reporting no land appreciation in their profit margins, which is certainly different from what the public companies are giving us.

In the last analysis, the nebulous correlation of size and profitability is good news for growing builders. It offers the prospect of better margins as they get bigger, as long as they continue to run a tight ship.



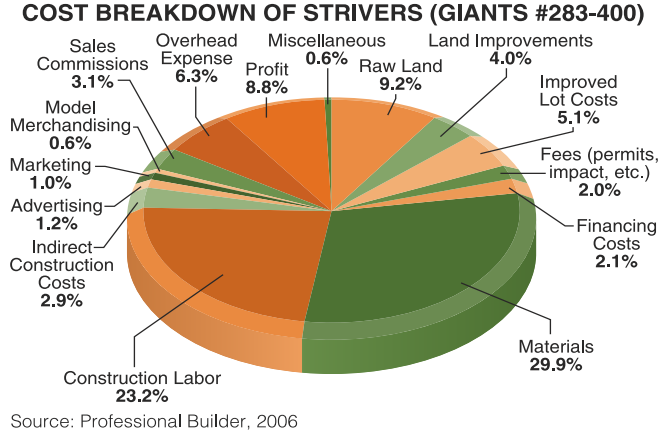
Source: Professional Builder, 2006

RICH AND FAMOUS (GIANTS 32-135) includes builders with revenue from $200 million to $991 million. While average profit is lower than that of the Masters of the Universe, and labor costs are higher, somehow materials costs are a fraction lower.



Source: Professional Builder, 2006

ACHIEVERS (GIANTS 135-282) are builders ranging from $75 million to $199 million in revenue, many with multiple market operations. Still, the average home in this group yields a profit of 10.4 percent—well below the 16 percent average for Masters of the Universe.



Source: Professional Builder, 2006

STRIVERS (GIANTS 283-400) include builders with revenue of $14.6 million to $74.6 million, the lowest level of purchasing power among all Giants. Not surprisingly, profit averages in single digits, and materials costs are nearly 30 percent.

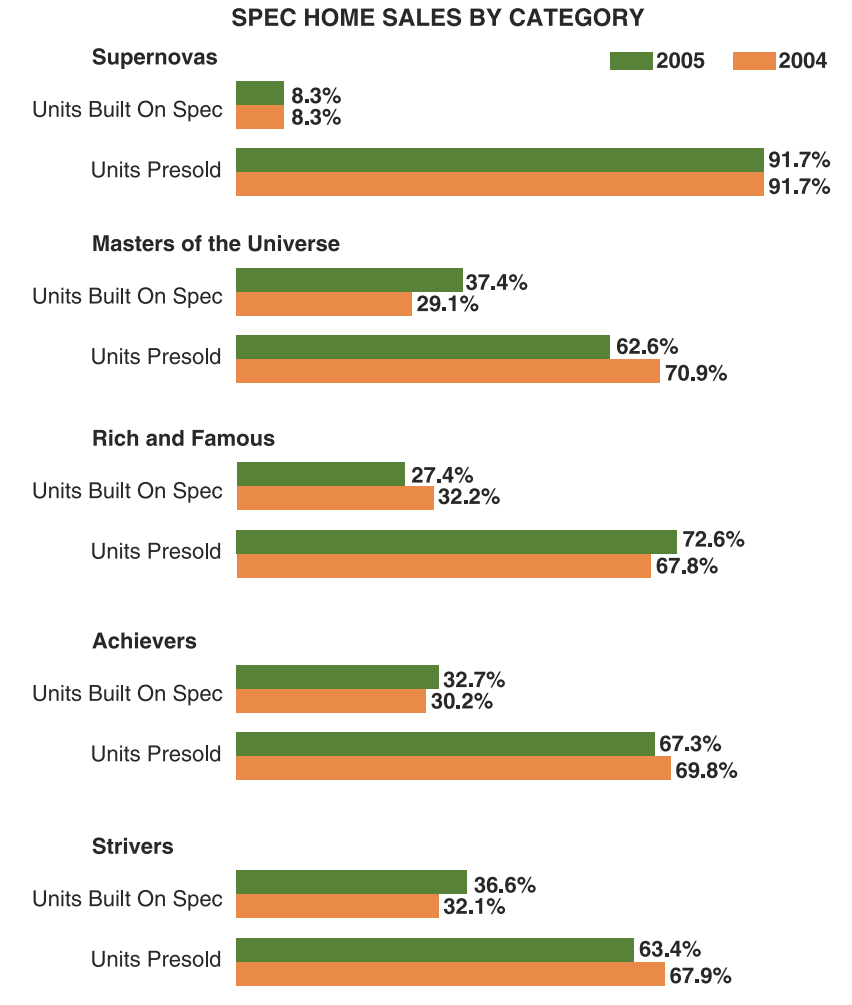
What Happens Next?

No one knows if housing markets will snap back, but 2006 is already testing the mettle of production builders large and small: the more leveraged land, the more you sweat.

It's been more than 13 years since the housing industry faced this kind of uncertainty. The economy still seems on fairly solid ground, but a lot of builders have sweaty palms and heart palpitations. They are the ones who remember 1992. The worry is how many don't.

The big public builders should be ready for anything. Their balance sheets have never been stronger. But if the market really dives, leveraged land and spec inventory will be the wild cards nobody wants. That's why we put the chart with the Giants' spec building records on this page.

It now looks like a good bet that 2006 will not break any sales records. Can the big publics deal with that? "I don't think they have any idea how much pressure will be on their margins if the market goes into the deep freeze," says Credit Suisse stock analyst Ivy Zelman. "These guys won't decelerate land purchases the way Wall Street thinks — because they don't want to forego growth." **PB**



Source: Professional Builder, 2006

SUPERNOVAS actually build lowest percentage of spec inventory of all Giants. In hot markets, many builders start specs with intent to sell before completion. If market stays south, specs will be lead boots.

Challenges & Opportunities

MASTER OF THE UNIVERSE CHALLENGES: "Responding to slowing demand and moderating prices, controlling construction costs to maintain margins in light of moderate price increases, reducing home building cycle time."

MASTER OF THE UNIVERSE OPPORTUNITIES: "Growth in Florida and Colorado…, continued growth in Texas with product line expansion (into) entry-level and semi-custom homes, entering new markets through acquisition or start-up."

RICH & FAMOUS CHALLENGES: "Identifying quality talent to achieve planned results, manage growth through acquisitions, restructuring our capital structure."

RICH & FAMOUS OPPORTUNITIES: "Use market strength to maintain and possibly increase market share in a competitive environment."

LOG ON To see the entire *Professional Builder* Giant 400 list, visit us online at **www.ProBuilder.com**

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Proactive Solutions

>> MARTHA RUSSIS, CONTRIBUTING EDITOR

Debate Rages over Fire Sprinklers

A milestone in fire protection laws is emerging on two fronts as fire sprinkler advocates push for requirements to install them in all new residences. However, whether they are the ultimate protection for people and property is still being hotly debated.

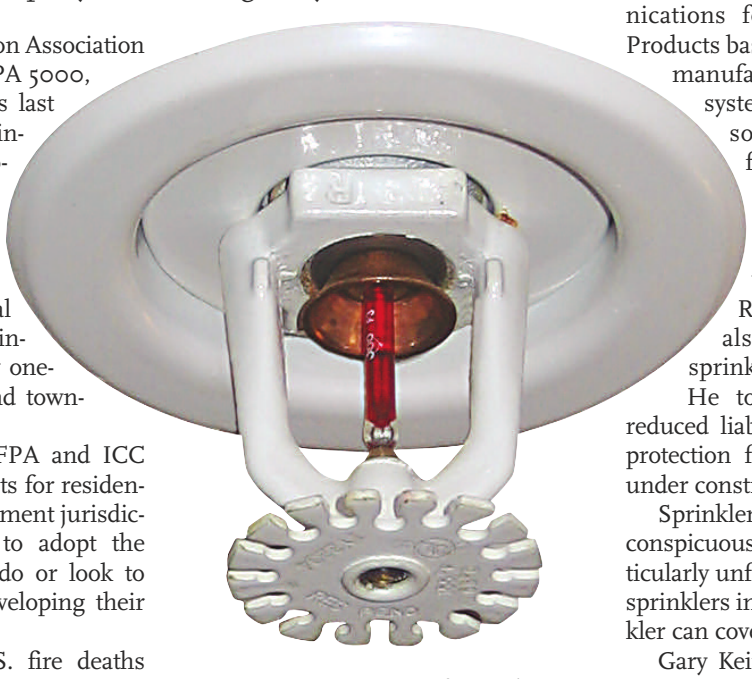
The National Fire Protection Association revised its NFPA 101, NFPA 5000, and NFPA 1 model codes last year to require fire sprinklers in new one and two-dwelling homes.

Meanwhile, the International Code Council (ICC) amended its 2006 International Residential Code (IRC) to include sprinkler requirements in new one- and two-family homes and townhouses.

It is the first time NFPA and ICC codes include requirements for residential fire sprinklers. Government jurisdictions are not obligated to adopt the model codes, but many do or look to them for guidance in developing their own.

Eighty percent of U.S. fire deaths annually occur in homes, according to the NFPA, and occupants have an 82 percent chance of survival in homes with sprinklers and smoke alarms.

"We do not believe based on the cost of sprinklers and the life safety improvements that they provide, that it is cost-effective at this time, and therefore it should not be included as a mandatory minimum requirement," says NAHB's Jeff Inks, assistant staff vice president of codes and standards. He adds that improvements in mechanical, electric and structural systems have already dramatically boosted occupant safety, and NFPA has used flawed reasoning based on data from older homes.



SPRINKLER DESIGNS VARY for certain areas. This sprinkler is a recessed pendant.

The ballpark for system costs is about 1.5 percent of total building costs. Sprinklers would add about $3,400 to the cost of a $225,000 home. Inks says that price increase would push some buyers out of the market.

The Home Fire Sprinkler Coalition points to Scottsdale, Arizona's success. Sprinklers have been required in all new homes there since 1986 and today, more than half the homes have them. No deaths have occurred in homes with sprinklers, but 13 people died in homes without them. The average property damage was $2,166 in homes with sprinklers, compared to $45,000 in homes with no systems.

Carmine Schiavone, vice president of business development and communications for Tyco Fire & Building Products based in Lansdale, Penn., says manufacturers are striving to bring system costs down further — something NAHB persists for — by using plastic instead of copper piping and hooking sprinklers into the home's main cold-water plumbing system. Reducing labor costs could also significantly impact sprinkler prices, he adds.

He touts benefits to builders: reduced liability in case of a fire; and protection from vandalism for homes under construction.

Sprinkler designs vary from more conspicuous styles for certain areas, particularly unfinished rooms, to concealed sprinklers in finished rooms. One sprinkler can cover up to a 20x20 area.

Gary Keith, NFPA vice president of building and life safety, and the HFSC's steering committee chairman, concedes that if widespread adoption occurs, it will happen gradually as jurisdictions reconsider their codes over the next few years.

"We know that it is going to probably take a cycle or two for people to get used to this idea, particularly for adoption of those codes at the state level because there is no state right now that has that kind of requirement," he says.

Contributing editor, Martha Russis, frequently writes on housing issues for national and regional publications.

Attached private living

William Lyon Homes offers townhouse units in Irvine, Calif. that live like single-family homes by providing private outdoor spaces.

Garland Park, a William Lyon Homes neighborhood in the master planned community of Woodbury in Irvine, Calif., attracts buyers because it offers privacy, square footage and affordability. The townhouses are attached, but they live as detached. "With interior courtyards that are unique to the units themselves, the neighborhood really has some livability like detached," says Brian Doyle, vice president of sales and marketing for William Lyon Homes.

Opportunity

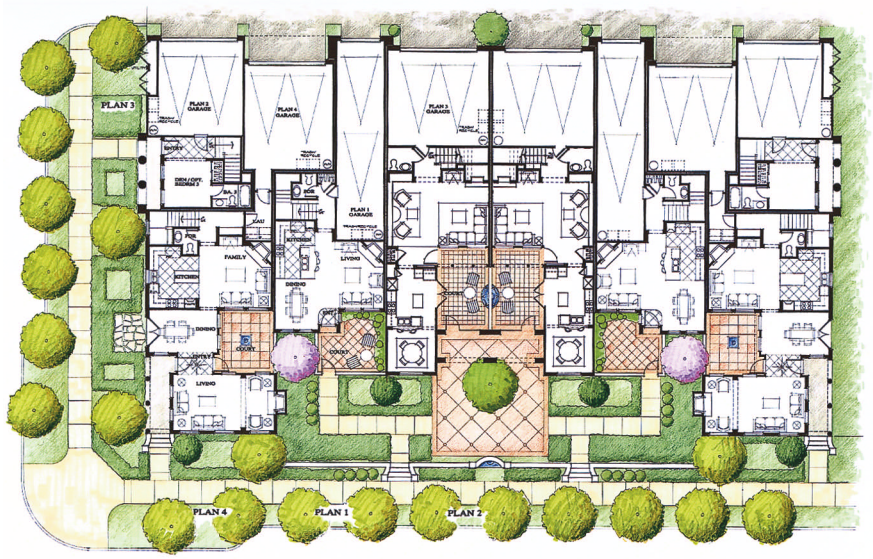
Irvine Company of Irvine Calif., designed Woodbury and created a competition for builders to build within the community by submitting a design and financial proposal. Because William Lyon Homes had worked with the Irvine Company in the past, putting together the right proposal came easy.

"It was a team effort from the consultants and our own internal team came up with a solution that provided the best results," says Doyle. "Ultimately, the design did something the Irvine Company would say William Lyon is the builder for this project."

The main opportunity for William Lyon was to build an attached single-family neighborhood that provided private outdoor settings and livability within each floor plan as well as the neighborhood. William Lyon brought in Bassenian/Lagoni Architects to help achieve this goal. "We wanted to bring into the multi-family an idea that's been working well with single-family homes with the courtyard concept," says Steven Dewan, principal at Bassenian/Lagoni Architects. "That drove the design of bringing private outdoor spaces to attached product."

Living differently

Four floor plans offer versatility for a number of lifestyles. "We did our research for a product that would appeal



PHOTOGRAPHY BY JOHN R. BARE

WILLIAM LYON PARTNERED WITH BASSENIAN/LAGONI ARCHITECTS to build an attached single-family neighborhood that provide private outdoor settings and livability within each floor plan as well as the neighborhood. This rendering shows the townhouses at Garland Park don't share many adjoining walls and none of them share ceiling and floor space.

VITAL STATS
Irvine, Calif.

Neighborhood: Woodbury
Developer: Irvine Company, Irvine, Calif.
Builder: William Lyon Homes, Irvine, Calif.
Architect: Bassenian/Lagoni Architects, Newport Beach, Calif.
Interior Designer: Creative Design Consultants, Costa Mesa, Calif.
Models open: November 2004
Home type: Single-family attached
Sales to date: 124 out of 166 units
Community size: 13.8 acres; 12 units per acre
Square footage: 1,355 - 1,971
Price: $507,990 to $638,000
Hard cost: $90.00 per square foot
Buyer profile: first-time buyers, move-downs and singles

MUCH LIKE A DETACHED UNIT, This private courtyard offers privacy to the owner.

to a fairly broad range of buyers," says Doyle. "We felt like this buyer would be made up of anything from singles to couples to young families and that's what we attracted."

Most attached townhouses share walls and possibly vertical space with another unit. The townhouses at Garland Park share few adjoining walls and none of them share ceiling and floor space. "Your living space above you is your living space, not someone else's unit," says Doyle.

Residence One, at 1,355 square feet, is a two-story, two-bedroom unit with a two-car tandem garage. Residence Two, at 1,737 square feet, shows the great use of outdoor living space. "It's that private courtyard that acts as an entry element to the house," says Dewan. "The kitchen opens directly onto the courtyard, which is a nice outdoor living feature."

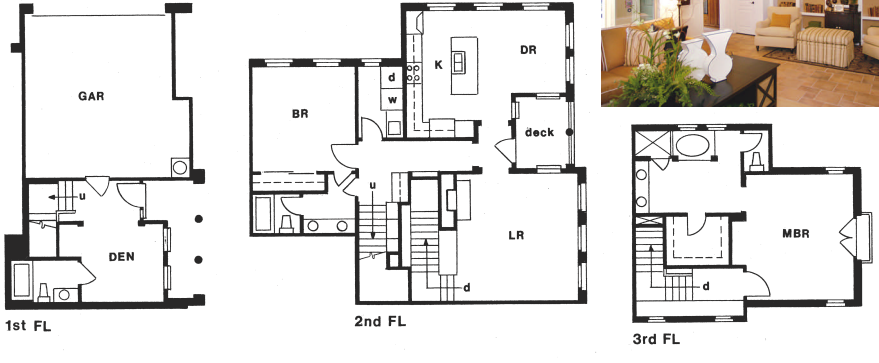
Two of the major draws for Residence Three, shown in the floor plan at right, are the downstairs bedroom and the third floor master bedroom. This three-level, 1,878 square foot home offers different styles of living, depending on the homeowner's needs. The downstairs bedroom can be converted into a den and is secluded from the rest of the home on the second and third floor. The third floor master bedroom offers complete privacy.

At 1,971 square feet, Residence Four is the largest of the plans. "This unit really feels like a single-family detached home," says Doyle. Three sides are detached from the rest of the building, and the courtyard offers indoor/outdoor livability by opening up to the living, dining and family room.

Creating definition and separation with the direct-access, alley-loaded garages add to the privacy each homeowner feels. Private outdoor living space plays into that sense of definition and separation too. Although Residence Three is the only plan not offering a private courtyard, the plan does offer a private deck.

Each building complex within Garland Park is made up of eight units, which can feel like large buildings, not

THIS KITCHEN, left, opens to private outdoor living. The living room, below, offers open, livable space.



comfortable homes. The courtyards, though, break up the monotony to create a more human scale building. "It actually made it more of an intimate building," says Dewan.

Outcome

To date, sales have reached 124 out of 166 units sold. The townhouses of Garland Park are affordable housing for Irvine, ranging in price from $507,990 to $638,000.

"We've had a lot of success with that," says Doyle. "We know the market very well. We understand the dynamic of the market and the dynamics of the construction processes that relate to that kind of product."

Another major success for Garland Park is its location. "Woodbury is a centrally located community in Irvine, but it's central to most of Orange county too," says Doyle. "From the standpoint of transportation service, employment and the amenities the Irvine company put into the project of Woodbury makes it a very attractive project for the consumer." **PB**

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PHOTOGRAPHY BY JOHN R. BARE

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THE GREENWOOD MODEL AT THE RESIDENCES OF OLD IRVING PARK has 3,080 square feet of living space. Two fireplaces come standard — one in the living room and the other one here in the family room.

>> BY **FELICIA OLIVER,** *SENIOR EDITOR*

A Slice of Suburbia on Chicago's Northwest Side

The Residences of Old Irving Park is the right fit for those seeking to blend the comforts of the suburbs with the conveniences of the city.

Paul Bertsche and Wendy Andrews decided to get into the development business when they were about to have their second child. They faced the dilemma most couples with an expanding family grapple with: Should we stay or should we go (to the suburbs, that is)?

They figured they couldn't be the only ones with the same dilemma. So Andrews, with a background in property management, and Bertsche, an estate lawyer decided to build the home and the community they wanted themselves.

The two formed C.A. Development and purchased land in Chicago's Old Irving Park neighborhood and built their first large, planned development.

Opportunities

C.A. Development's current project is the Residences of Old Irving Park, located one block north of the Terraces.

Bertsche describes Old Irving Park as one of the city's best values and hidden treasures. "A lot of the community has been down zoned to R2," says Bertsche. "What's not R2 is only R3, which are both lower density zoning. So you have a lot of gracious, older housing stock on large lots."

The featured model is the Greenwood, one of five floor plans offered in Phase II of the Residences. At 3,080 square feet, it has four bedrooms and three and a half bathrooms. Options for Greenwood include:

- A Jack and Jill bathroom between the two smaller bedrooms on the second floor
- An optional wet bar in the finished

INTERIORS MARC BERLOW

VITAL STATS
The Residences of Old Irving Park

Location: Chicago
Neighborhood: Old Irving Park
Builder/Developer: C. A. Development
Architect: Guajardo REC Architects
Interior Designer: In house
Models open: Greenwood
Home type: Single-family and townhomes
Sales to date: 85 percent sold
Community size: 70 units
Square footage: 2,100 - 3,800
Price: Mid $400,000s to mid $800,000s
Buyer profile: Move-up, young families with one or two children

basement's recreation room

- A detached garage provides the option of a balcony off the master suite; if attached, a deck can be added on top of the garage.

"Out of the first phase," says Bertsche, "40 percent of the homes were the Greenwood model. With the second phase across the street, we are at about 46 percent. Given the fact that there are three different homes to choose from, people have chosen this floor plan."

The width of the Greenwood is a unique and appealing feature. In Chicago, the size of a standard city lot is 25 feet, generally restricting the width of a house to no more than 19 feet.

"If you do what is conventional," says Bertsche, "and that is to have a stairway run the length of the house, you're taking 3 1/2 feet out of the width of the house. After taking the outside walls out, you're down to about a 15-foot wide space.

"You have very much of a shotgun effect. But by placing the stairs in the center of the house and turning them to run crosswise, you're able to have a home where you're enjoying the full 19 foot width."

"The interesting thing on this house," says Greg Randall, principle of Guajardo REC Architects, who worked on the Residences, "was the perception of 'backyard.' These homes have a lot of open space on the lot, but there isn't really a traditional backyard.

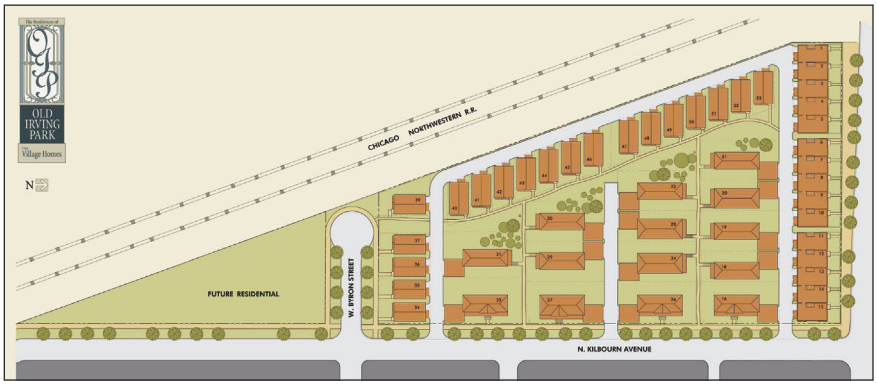
"You have 30 foot open spaces between the houses and adjacent to the houses," Randall continues, "which you normally don't get in the city of Chicago. It's a little bit more of that communal, sense of open space that is very unique to what C.A. Development does."

Daylight is another defining characteristic of the Greenwood models because of its many windows. "If you go and count windows in other developer's houses, we have probably 50 percent more windows — windows on the side, windows in front."

The Greenwood also offers a variety of customization options.

"We try to give people a wide range of standard choices to make before they have to go to the upgrades," says Andrews.

"They have a choice of upgrading the façade," Andrews adds. "We have an anti-monotony restriction, but other than that, people are free to put whatever colors, whatever choices that they would like together."



THE GREENWOOD KITCHEN comes standard with 42-inch cherry cabinets and a stainless steel Whirlpool appliance package.

Obstacles

The biggest obstacle to completing the development was the cost of acquiring the property.

"What we initially offered the sellers in 1996 [compared] to what we ultimately had to pay for the land — it was over a 400 percent increase," says Bertsche.

Building on a former commercial site provided the challenge of building around a busy street and some railroad tracks.

"It's a triangular shaped lot," says Bertsche, "which in and of itself possess a little challenge to designing when you are in a city that is known for its grid work."

They built townhouses on Irving Park Road, providing a buffer on one side. Medium-sized and more reasonably priced single-family homes functioned as a buffer near the railroad, so that the largest homes and lots on the interior could be buffered from both the street and the railroad.

"The obstacle of having a railroad in the back," says Bertsche, "is something that we've faced before, and you go with it as best you can. You orient your houses away from it. You take the excess land and you do something beneficial with it."

In this case, C.A. Development designed a fitness trail parallel to the tracks.

Outcome

C.A. Development is working on Phase III of the Residences of Old Irving Park. Phase I is sold out; Phase II is 85 percent sold and delivery is expected between April and August of 2006.

Turns out there were a lot of other people looking for the same options Bertsche and Andrews were — a gracious single-family home in a neighborhood close to transportation, shopping, parks and family recreation offering great value for the city, and a lifestyle fit for the 'burbs. **PB**

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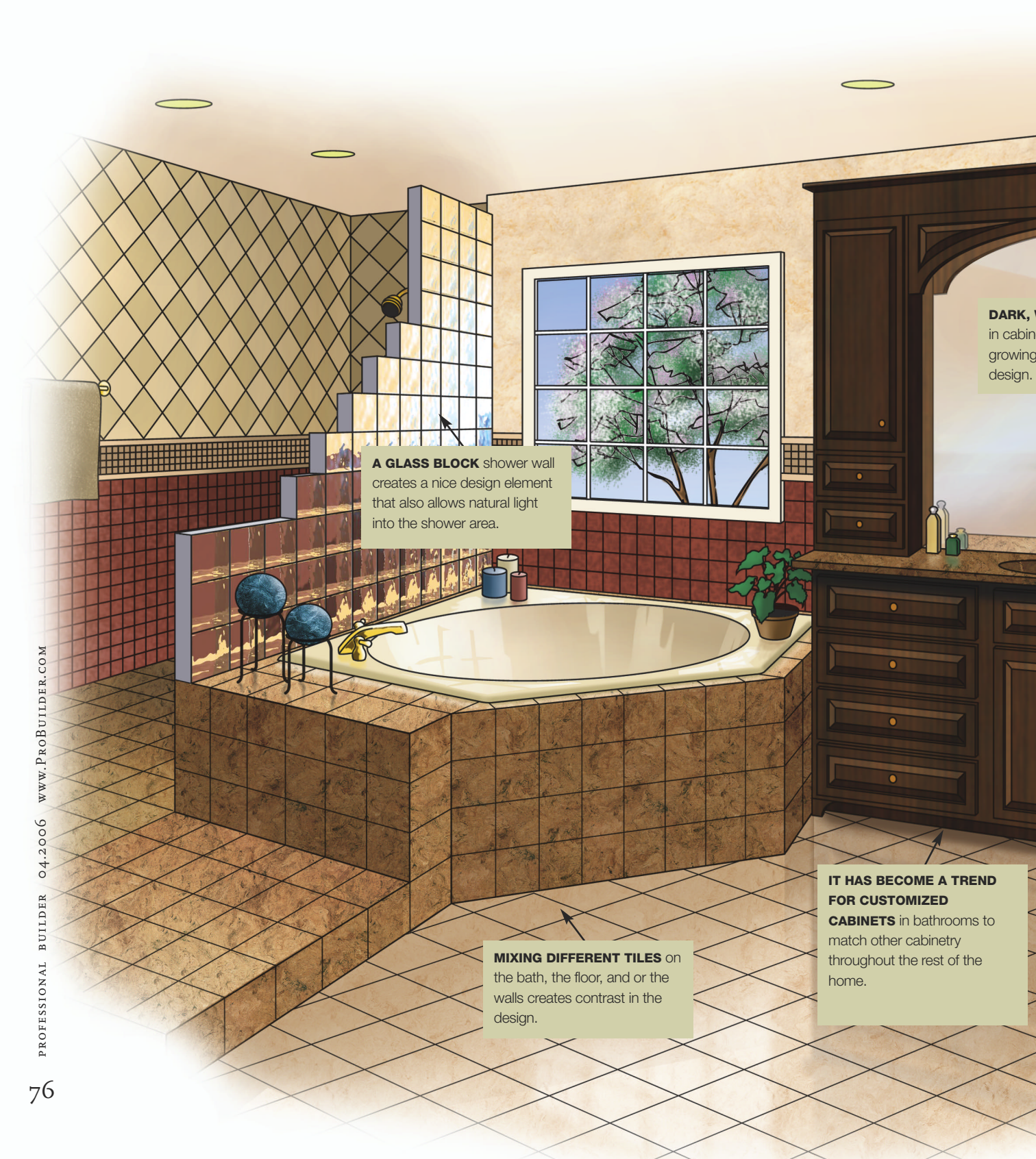
A GLASS BLOCK shower wall creates a nice design element that also allows natural light into the shower area.
DARK, in cabin growing design.
MIXING DIFFERENT TILES on the bath, the floor, and or the walls creates contrast in the design.
IT HAS BECOME A TREND FOR CUSTOMIZED CABINETS in bathrooms to match other cabinetry throughout the rest of the home.

>> BY **LAURA BUTALLA,** *SENIOR EDITOR*

INSIDE & OUT

Relaxing environment

Bathroom design trends and products offer new home buyers spa-like comfort and special features with unique details

Today's bathrooms feature four main elements: luxury, spa, comfort and detail. According to industry experts, of all of those elements, creating a spa-like feel is the most important. Space in the home can be a precious commodity, but builders are focusing more on bigger bathrooms to provide homeowners with more space. That space is fitted out with special amenities such as coffeemakers, under-counter refrigerators and microwaves.

Adding to the sense of luxury, comfort and a spa-like environment are designer touches of detail including accent colored walls, distinctive mixtures of tiles or unique sink bowls.

"The bathroom is the jewel of the home," says interior designer Lita Dirks, president of Lita Dirks & Co., Englewood, Colo. "The powder room is the diamond ring of the home, and the master bathroom is right behind it."

Bathroom Hype

While all bathrooms in the house are getting special attention, the master bathroom utilizes all four elements the most completely. "The master bathrooms are spa-like in feel," says Dirks.

Separate vanities, not just separate sinks, are increasingly popular. This provides distinct areas for men and women in the bathroom, allowing each his or her exclusive comfort and space. "In her space, she wants a tub to soak in and separate vanity space," says Dirks. "He may want the higher sink height and the john."

Some builders provide 36-inch vanity height, which is more comfortable for the average man. "It's all about being really efficient," says Tina Barclay, president of Barclay Interior, Lake Oswego, Ore. "They live differently and it gives them their own separate space."

Luxury is not just a vanity. It's customized cabinetry. Furniture-style cabinetry creates distinguishing

PHOTO PROVIDED BY LITA DIRKS & CO.

PHOTO PROVIDED BY PITTSBURGH CORNING

PHOTO PROVIDED BY POSSIBILITIES FOR DESIGN

IN MOST HOMES, SHOWERS HAVE REPLACED THE TUB, shown left. Tubs, however, can add a luxurious, spa-like feel to any bathroom. Placing chandeliers and other specialty lighting in the tub area accents the luxurious look of the bathroom. **GLASS BLOCK ADDS A DESIGN ELEMENT** to the bathroom and can be done in various ways as shown above and below right.

vanities as well as space for storing bathroom essentials, while giving the bathroom that sense of comfort. Many builders match bathroom cabinetry to the cabinetry in rest of the home, but a distinct style can create a unique look for the bathroom alone. "The entire wall can become cabinetry," says Dirks. "Many builders are using cabinetry to distinguish their difference from another builder."

The master bathroom still holds a standard tub or hot tub. The hip version of the hot tub is Chromatherapy, which is a hot tub with colorful lighting used to sooth and relax. Home buyers are also occasionally requesting Japanese soaking tubs as upgrades.

The most significant change in bathrooms recently is the shower now dominates the space. Walk-in showers with glass block walls. Shower stalls with clear glass doors. Snail showers with tile-covered walls. No matter the style, many feature built-in shelving for shampoo and soap, decorative grab bars for safety and patterned non-slip floors. Other added details for luxury and comfort include multiple showerheads, body sprays and water tiles to line the walls and ceiling.

The master bathroom still features a private area for the toilet. Some provide privacy with a single door, while others define the space with half walls. Some toilet spaces even provide extra cabinetry for storage of toiletries, towels or other necessities.

Maximum Detailing

Upgrades allow for personalization. "There's more flexibility for builders in upgrades," says Doris Pearlman, president of Possibilities for Design in Denver. That flexibility makes it easier for builders to deliver unique details. No matter the product, each offers ways to deliver personalization:

- **Tile:** "Tile is the easiest way to add touches for a production builder," says Dirks. "The way you use the tile itself can become a piece of art." Consider lining tile around a mirror to create a frame or mixing tile sizes, shapes, and textures to add to the detail. One of the newest trends is using leather tiles to create new looks for the powder room or as a vanity border.
- **Lighting:** "Lighting is critical," says Barclay. "Different levels of lighting make a difference." Place a chandelier over the tub or add scones throughout the room to create a new look.
- **Sinks:** "People want interesting sinks," says Dirks. Bevel and pedestal sinks are still very popular. Sink bowels in different shapes and sizes provide an entire new look and create unique detail too.
- **Toilets:** "Someone finally got around to redesigning the toilet," says Pearlman. The Hat Box toilet is all the rage for those who can afford it. This sleek looking, comfort-height toilet

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*25,000 gallons versus a 3.5-gallon toilet, or 6,000 gallons versus a 1.6-gallon toilet.
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Exceptional bulk performance	The 1.6-gallon flush consistently requires only one flush to remove waste and is backed by a 5-year limited warranty
Two-option actuator	Provides easy-to-use flushing options
Flapperless valve	Durable valve system design ensures long-term operation and reliability
Sanitary guard	Not commonly found on most toilets, this unique feature helps prevent liquid from getting under the tank
Attractive, versatile design	Clean design lines coordinate with almost any décor
Round-front and elongated bowl options	Both toilets are available with round-front and elongated bowl configurations giving consumers the flexibility they need

*25,000 gallons versus a 3.5-gallon toilet, or 6,000 gallons versus a 1.6-gallon toilet.

Rockton toilet featuring Dual Force technology shown with round-front bowl in White. 402024.

Karsten toilet featuring Dual Force technology shown with elongated bowl in White. 402026.

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Keynotes: Teamwork and Leadership

Patrick Lencioni

Patrick Lencioni is the founder and president of The Table Group, Inc., a specialized management-consulting firm focused on executive team-building and organizational health. He has been described by the One-Minute Manager's Ken Blanchard as "fast defining the next generation of business thinkers." Pat's passion for organizations and teams is reflected in his writing, speaking and consulting. He is the author of five business books, including *The Five Dysfunctions of a Team*, which was on the New York Times best-seller list. His new book, *Silos, Politics and Turf Wars*, came out in March 2006. Pat consults to executives and speaks to world-class organizations, addressing thousands of leaders. Prior to founding his firm, Pat worked for Sybase, Oracle and Bain & Company. He also served on the National Board of Directors for the Make-A-Wish Foundation of America from 2000-2003.

Keith Harrell

Known for his energetic, innovative presentations, Keith Harrell is a dynamic life coach who specializes in changing behaviors through a positive attitude. While growing up in Seattle, he aspired to become a professional basketball player. Although he never realized that dream, The Wall Street Journal says, "What sets him apart . . . is driving ambition and an attitude that refuses to flag." Through his company, Harrell Performance Systems and his book *Attitude is Everything: Ten Life Changing Steps to Turning Attitude into Action*, Keith specializes in helping companies achieve and maintain their goals. Harrell spent 14 years at IBM, where he was recognized as one of the top sales and training instructors. He is widely regarded as one of the country's best speakers.

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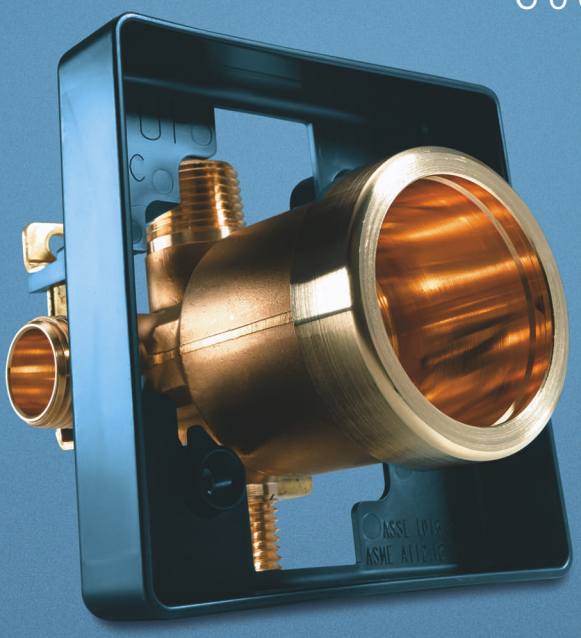

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>> BY **FELICIA OLIVER,** *SENIOR EDITOR*

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>> CREATIVE CABINET USES

Creative Cabinet Solutions

Tech rooms, accessory cubbies, and secret storage space for valuables gives homeowners options for concealing their belongings

Cabinets — they're not just for kitchens and bathrooms anymore. And the ones that are still there are being used in new and creative ways. Necessity is the mother of invention, and homeowners are finding themselves on a relentless quest for more space to put all of their things.

"[In our] consumer culture," says Georganne Derick, MIRM, interior designer and founder of Merchandising East in Ellicott City, Md., "We are overwhelmed by the stuff in our lives and we want it to disappear so we're not looking at it. We're trying to figure out ways of storing it."

Today's challenge is "making sure that cabinets aren't just a hole with some shelves in them," says Mindy Arnold, interior designer and owner of Your Décor in Lenexa, Kan. "You can really make them functional and hide the things you want to hide, make them store the things you want to store."

Cabinets are traditionally used in kitchens, but are currently being used in more novel ways.

"There are appliance cubbies," says Arnold, "[for] putting your electrical inside the cabinetry. You can open a door and pull out a flat surface on supported rollers that you can put your toaster on, or your blender — those sorts of pieces. And they are plugged inside the cabinets, so that you don't have all those outlets [visible]. You don't have your toaster on your countertop taking up space."

Curling irons and blow dryers similarly take up of counter space in the bathroom. Makeup desk areas with uniquely functional pullouts can help.

"If you pull out what looks like a drawer," says Arnold," instead of pulling it out, it simply slips down. Inside, you have areas where you can [plug] in your blow dryer and your curling iron. You just flip that down and start pulling out your already plugged-in items."

Another use of cabinets, per se, is to camouflage large, freestanding appliances. Overlay panels hide the gleaming metal of modern stainless steel refrigerators, dishwashers and freezers.

Using cabinetry in this way creates uniformity in the space.

"It's seamless," says Derick. "It's integrated into the architecture. There's not a lot of ... mix matched pieces of furniture that stand away from the wall, [or that] are half on, half off the carpet.

Home Offices and Work Stations

Kitchen cabinet manufacturers are now creating whole walls of bookcases and cabinets that are being used in home offices and studies, enabling builders to offer it to the homebuyer with more ease of production.

"There's an interest in family management centers," says Derick. "If a new home is being built, sometimes they will build a home office, a small one, off the kitchen somewhere."

"When there isn't such a room, sometimes you'll find them cropping up in a walk-in pantry in the kitchen, or in the mudroom area," adds Derick.

Kitchen workstations or tech areas, with space for a computer and file cabinets that match those of the kitchen cabinets, have become quite popular.

LOCATED BETWEEN THE MASTER BATHROOM AND THE MASTER SUITE is a bank of cabinets for storage.

However, because of the "inherent messiness of the location," Derick says builders and designers are finding other places to put them.

These workstations have migrated to adjacent areas — like the laundry room.

"We've turned laundries into partial offices," says Anthony Crasi, architect and principle of The Crasi Company. "We've been using the under-the-counter type of washer and dryer, so you can raise the height of the countertop up and have a workspace above it. That's always a nice way to save some space. Then what we do is put a desk in. It has little cubbies in it.

"It's a space where you can close the door if you want to pay the bills, put a computer in there, maybe have a filing cabinet down below,' adds Crasi.

"If the laundry room is large enough," says Derick, "there will be cabinetry not only for supplies but for things like gift wrap. These are utilitarian ways of using cabinetry."

"Oftentimes there is a home loft or a family activity room," she continues, "where the family may do arts and crafts projects together.... You will find those

with their own sets of cabinetry in them, often to store away arts and crafts materials, games that the family might play together."

The Master Suite

"The owner's suite now comes complete with cabinetry," says Derick, "with a wet bar, a wine center, maybe even a wine refrigerator, coffee bar or a plasma screen TV above a bank of cabinets for the electronics."

"We have the dressing area in the owner's suite," Derick continues. "That would have a bank of cabinets in it for storage, and maybe a vanity area. And then we have the owner's closets...oftentimes with built-in cabinetry. Huge in the custom market and the higher-end market is to have built in cabinetry to hide away all of your accessories — your ties and your shoes, your gloves your scarves your hats your jewelry. And a center island, if the closet is large enough to have storage below, and a place to fold laundry or lay out clothes on top of it."

Secret Spaces

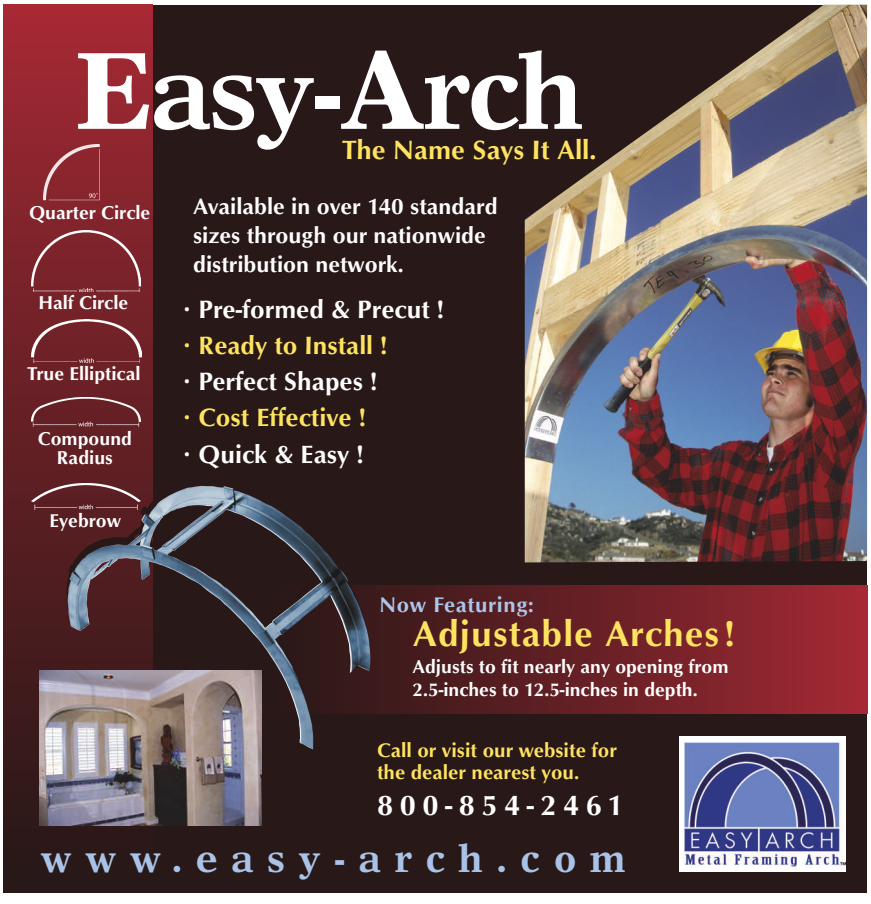
Cabinets without pulls that blend in to look like walls are a popular trend.

"Traditionally," says Arnold, "there's a fireplace and two built in shelves on the side. Now ... when you push on it, there are doors that open. So there is a closed flat wall with some nice paneling on it or something decorative, and what you do is push on a section of it, and it pops the door open. There's a TV in there or extra storage space."

Let no space go unused, even under the stairway.

"The space under the staircase used to be wasted," says Arnold. "because architecturally it didn't work for anything. Now they are keeping that open. maybe the office that's sitting there has a bookcase in it that you can pull on the shelf and the bookcase opens and there's a room back there. ... the wall moves, so you can get to those spaces.

"Even if it's a really weird little cubby," says Arnold. "don't forget it, because it can be something useful."



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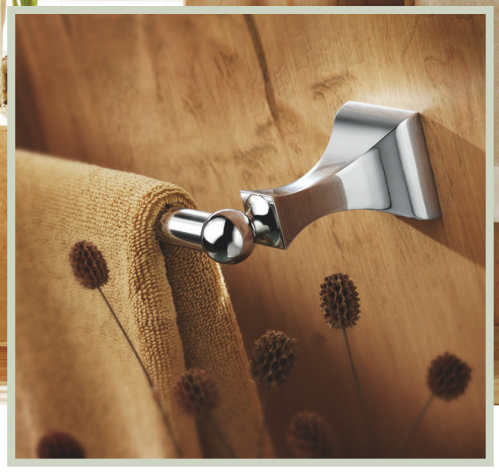

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Pipe Dreams

Upgrade kitchens and baths where it matters most.

If you want to build kitchens and baths that are beautiful inside *and* out, you might want to make some upgrades where they can't be seen — the plumbing system.

Technologies like home run plumbing, air admittance valves (AAVs), tankless water heaters, low-flow fixtures and gray water reuse piping provide homeowners easier long-term maintenance and lower utility bills. You benefit from easier, speedier construction.

Home Run Plumbing

Home run plumbing systems allow you to shut off water to a single fixture through a central manifold, so if there's a leak in one line, you don't have to turn the water off to the whole house to find it.

The system includes the manifold to deliver hot and cold water, which is fed through flexible cross-linked polyethylene plumbing (PEX) supply lines.

Flexible PEX piping is a real plus when installing water lines. The piping rolls off a spool and can be easily threaded around structural members and through walls and crawl spaces. That means a lot less cutting and welding or gluing for the plumber.

Since PEX requires few (if any) fittings, there will be fewer leaks. PEX also expands and contracts more than other types of pipe, so it's less likely to burst if the pipes freeze.

When installing plumbing manifolds, mount them in a convenient, accessible location such as on a basement wall or in a service closet near the domestic water heater.

Easy Admittance

AAVs simplify the builder's job by eliminating the need for conventional pipe venting.

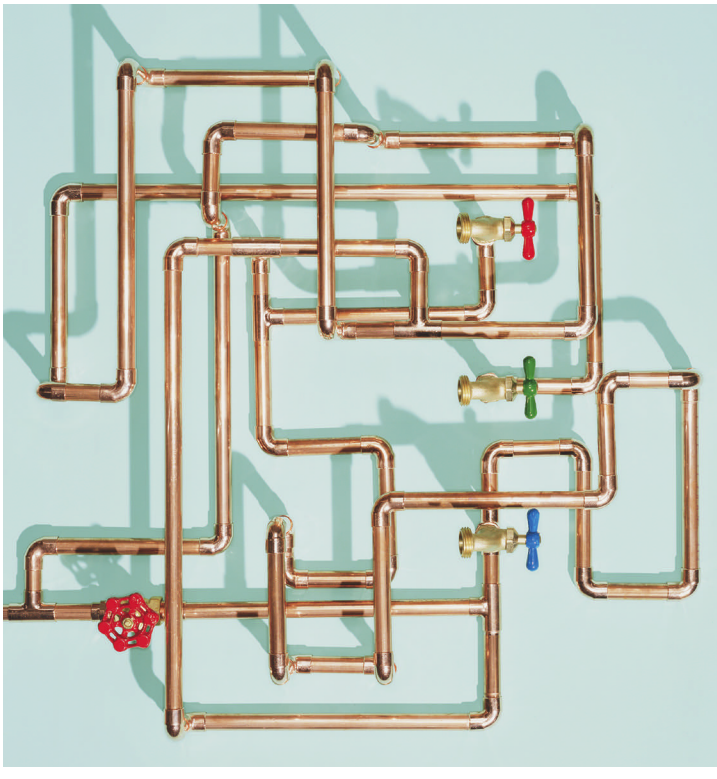
AAVs operate with the discharge of wastewater, which releases a vacuum and allows air to enter the plumbing for proper drainage. Otherwise, the valve remains closed, preventing the escape of sewer gas and maintaining the trap seal.

AAVs are also long-lasting. The American Society of Sanitary Engineers (ASSE) requires valves to open and close at least 500,000 times with no emanation of sewer gas.

AAVs have been accepted by major model building and plumbing codes, including IRC 2003 for single- or multi-family residential construction, and by the ASSE. However, some local authorities are still unfamiliar with the technology or reluctant to accept it. If that's your situation, you may need to present extra data to educate your code official.

Tankless Water Heaters

Widely used in Europe and Japan, tankless water heaters offer an endless supply of hot water and lower water heating bills. These units are so small they can be installed in a closet, under a sink, on a wall or, in some cases, on the exterior of the home.



Technologies like home run plumbing, air admittance valves (AAVs), tankless water heaters, low-flow fixtures and gray water reuse piping provide homeowners easier long-term maintenance and lower utility bills.

Manufacturers say their tankless water heaters can shave 10 to 20 percent off water heating bills by eliminating standby losses — the energy lost from continually warming water that sits in the tank. For maximum energy efficiency, tankless can also be used to boost a solar hot water system.

Available in electric, gas and propane, tankless water heaters can meet all of a home's hot water needs. They can also provide instant hot water to specific fixtures if you install point-of-use heaters, which can be located under a sink. This application is gaining popularity in bathrooms

PHOTOGRAPH: PAUL TAYLOR/PHOTOGRAPHER'S CHOICE

with double sinks, providing hot water to both faucets from under the vanity.

Go With the Flow

When they were introduced, low-flow toilets generated complaints about trouble clearing the bowl and frequent clogging. If you've rejected many water-saving fixtures out of hand, it's worth taking a second look. Many low-flow toilets, faucet aerators and showerheads have been developed with advanced technologies and designs to improve performance.

One option to consider is laminar flow controls, which make lower water flow feel more vigorous. Manufacturers claim that laminar flow controls can reduce water use by as much as 90 percent compared to conventional fixtures by delivering a precise amount of water to faucets, showerheads, and hoses. Like low-flow fixtures, laminar controls are simply screwed into place.

Also check with your local water authority, which may offer rebates for installing low-flow fixtures and other water efficiency measures.

Putting Gray Water to Work

For the homeowner, gray water reuse can significantly lower bills for outdoor water use. For the builder, it could mean the ability to build on land that is unsuitable for conventional water treatment. It pays to investigate your options.

With some very simple piping alterations, most new homes can be equipped to allow a future gray water system retrofit. This requires only that gray water drains be kept separate from black.

Gray water is wastewater from bathtubs, shower drains, bathroom sinks, washing machines and dishwashers, accounting for 60 percent of outflow from homes. It contains few or no pathogens and 90 percent less nitrogen than toilet water or other "blackwater." Therefore, it does not require the same treatment process. By designing plumbing systems that separate the two, gray water can be recycled for irrigation, toilets and exterior washing.

If the home is under construction, this isn't too difficult. A 2 1/2-bathroom home would require less than half a day of a plumber's time and some drain pipe material. Depending on location, this modification could be in the $350-$500 range. **PB**

Scott T. Shepherd writes about better building practices on behalf of PATH. Scott is an associate with D&R International, an environmental consulting firm in Maryland.

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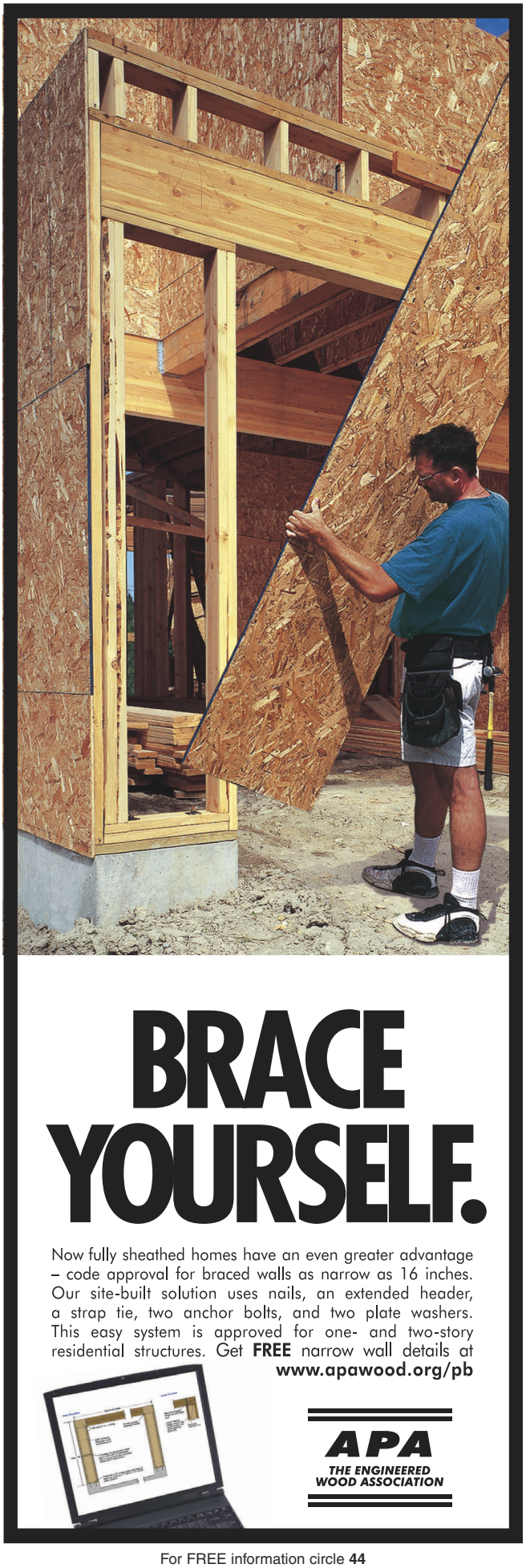

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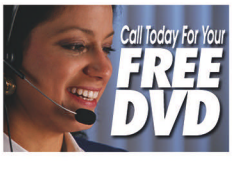

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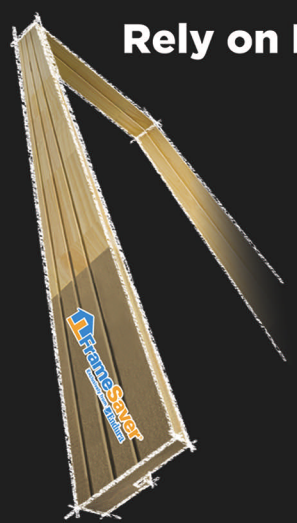

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Any questions contact Judy Brociek at 630-288-8184 or jbrociek@reedbusiness.com

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David Weekly Homes

Bill Justus
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In creating its new Waterhill suite for the kitchen and bath, Moen conducted more than 300 surveys in six cities to determine the style and preferences of targeted consumers. The result is a collection that features elaborate, traditional styling and functionality. The Waterhill two-handle kitchen bridge faucet features a high-arc design and charming details. ***Circle 125 on card.***

In My Own Words

"We like the quality of the product and the channel management at Moen. If we have an issue with any channel partner, Moen is quick to jump in and assist. They are also outstanding in their design center support — something many promise, but few actually deliver. Moen has also made tremendous improvements in the style and innovation of their product."

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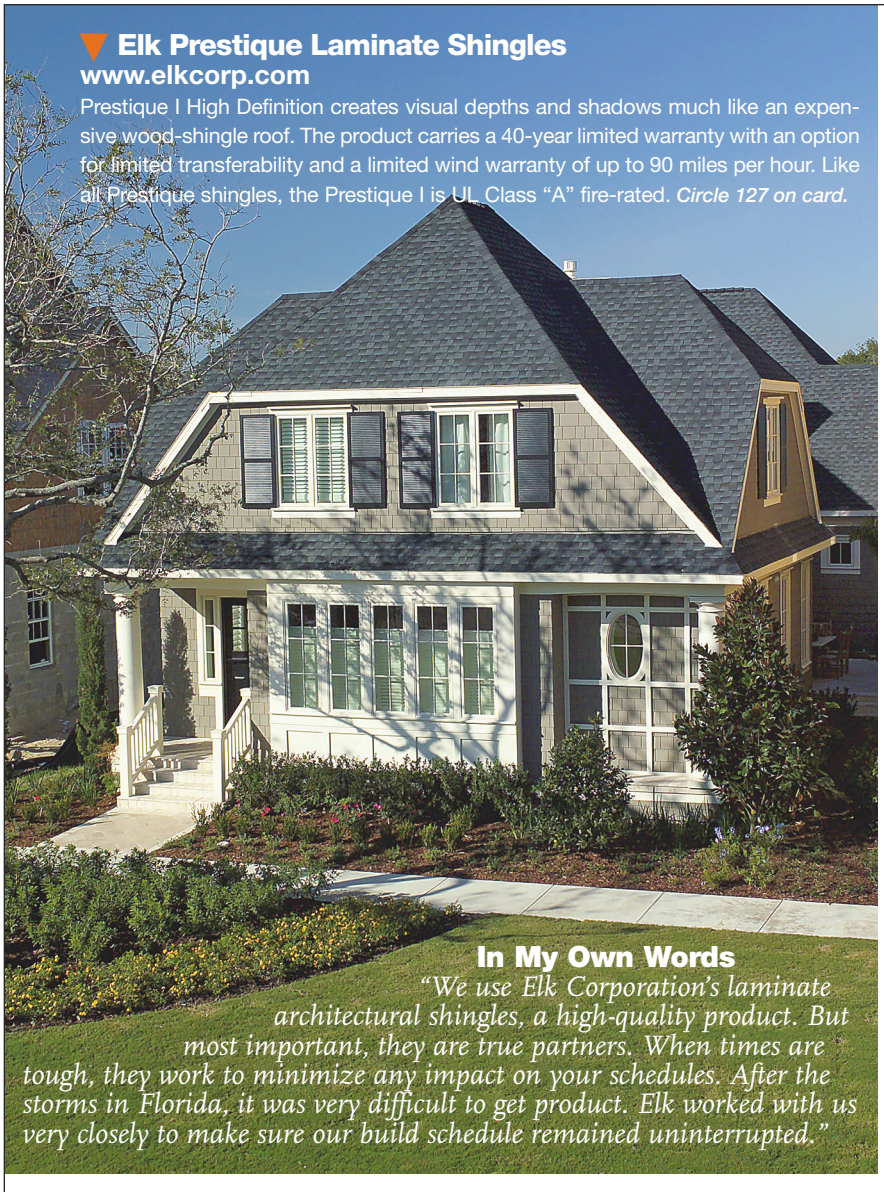
In My Own Words

"We like James Hardie for its product quality and for the partnering proposition the company fosters, helping the builder effectively use its products in the field. James Hardie is active in channel management: If we have a question about supply or some other problem, they are quick to respond."

>> David Weekly Homes cont'd



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In My Own Words

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During the summer, it's the moisture in the air, not the temperature, that makes a home uncomfortable. Trane XL15i variable speed comfort system products include a special feature, called Comfort-R, that removes moisture from the indoor air.

Set by the installer, Comfort-R ramps up airflow, so the home gets cooler faster.

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In My Own Words

"Our firm has a national trading partner survey and issues Partners of Choice awards. Trane achieved an AA rating — an A in quality and an A as a service provider — and is one of our award winners this year. This honor is due to the outstanding service job Trane performs in the field. They also make a good product."

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In My Own Words

"Boise's Build-Rite Services look at the whole house as a system. They value-engineer the project to my specifications, so I end up with a tight home that saves money. Using the service reduces cost, ensures quality and provides our subs with documents that assist them in the actual building process. For example, Build-Rite provides a host of squaring diagrams and cut sheets on the back end of the project. This adds a lot of process control to the subs in building this house."

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GE

GE's Side-By-Side Refrigerator has several new updates including outside temperature controls, a sealed ExpressChill crisper and a TurboCool function for maintaining a consistent cool temperature. The Side-by-Side also features a new, gently contoured design in black, white and stainless steel.
www.ge.com
Circle 130 on inquiry card

Jade

Jade has added a slide-in sealed burner cook top to its culinary line. This cook top is available in 36- and 48- inch sizes and can be custom configured with an 18,000 BTU commercial charbroiler, steel griddle and/or 12,500-18,000 BTU burners. It has a 24-inch flush to cabinet design and cast-iron burner caps. **www.jadeappliances.com**
Circle 131 on inquiry card

KitchenAid

KitchenAid's new French-Door Bottom Freezer Refrigerator has full-span shelving with a narrow door swing. This 42-inch built-in model is available in stainless steel or frameless for custom paneling. The refrigerator features electronic temperature monitors, a variety of specialty drawers and storage bins and a water filtration system for the ice maker.
www.kitchenaid.com
Circle 132 on inquiry card

Whirlpool

Whirlpool has added the Duet Sport model to its line of washers and dryers. Great for small spaces, the Duet Sport compacts the features of Whirlpool's Duet front-load line in a smaller size. Designed for conservation, the washer and dryer set uses 66 percent less water and energy with every load. Available in white or white with gray accents, Whirlpool offers an optional 10- or 15.5- inch storage pedestal.
www.whirlpool.com
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Jenn-Air
Jenn-Air's new slide-in ranges are ideal for island installations. The new family of slide-in ranges comes in gas, electric and dual-fuel models. The ranges are 30 inches wide with warming drawers and a curved front floating glass design. These ranges are available in black, white and two versions of stainless steel. **www.jennair.com**
Circle 134 on inquiry card

Jenn-Air
Jenn-Air's under counter built-in Ice Maker creates ice cubes from pure mineral water. Jenn-Air's Clean Cube system creates ice cubes by continuously circulating water over a 32-degree frozen plate until the required amount of ice is produced. This ice maker is available in black, white and stainless steel and custom panels and can make up to 35 pounds of ice a day. **www.jennair.com**
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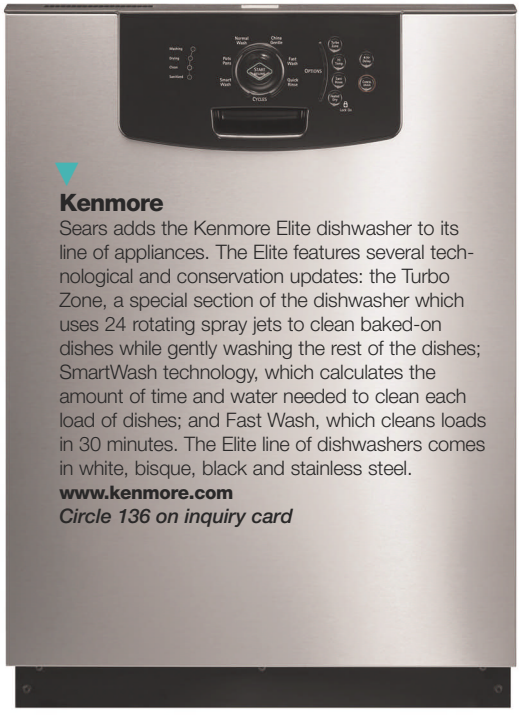

Kenmore

Sears adds the Kenmore Elite dishwasher to its line of appliances. The Elite features several technological and conservation updates: the Turbo Zone, a special section of the dishwasher which uses 24 rotating spray jets to clean baked-on dishes while gently washing the rest of the dishes; SmartWash technology, which calculates the amount of time and water needed to clean each load of dishes; and Fast Wash, which cleans loads in 30 minutes. The Elite line of dishwashers comes in white, bisque, black and stainless steel.
www.kenmore.com
Circle 136 on inquiry card

Viking

Viking has introduced a new line of Professional and Designer convection microwave hoods. A built-in ventilation unit sets this product apart from the rest. The convection microwave hood has four convection settings for baking, broiling roasting and manual convection. All units come equipped with a 300 CFM ventilation kit that helps with smoke and odor control. **www.vikingrange.com**
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ASHTON WOODS HOMES USA Georgia $300,000,000 Lead Arranger, Syndicated Revolver	PASQUINELLI/PORTRAIT HOMES Multiple Markets $85,000,000 Construction and A&D Facility	STANLEY MARTIN COMPANIES Virginia and Maryland $150,000,000 Lead Arranger, Syndicated Revolver

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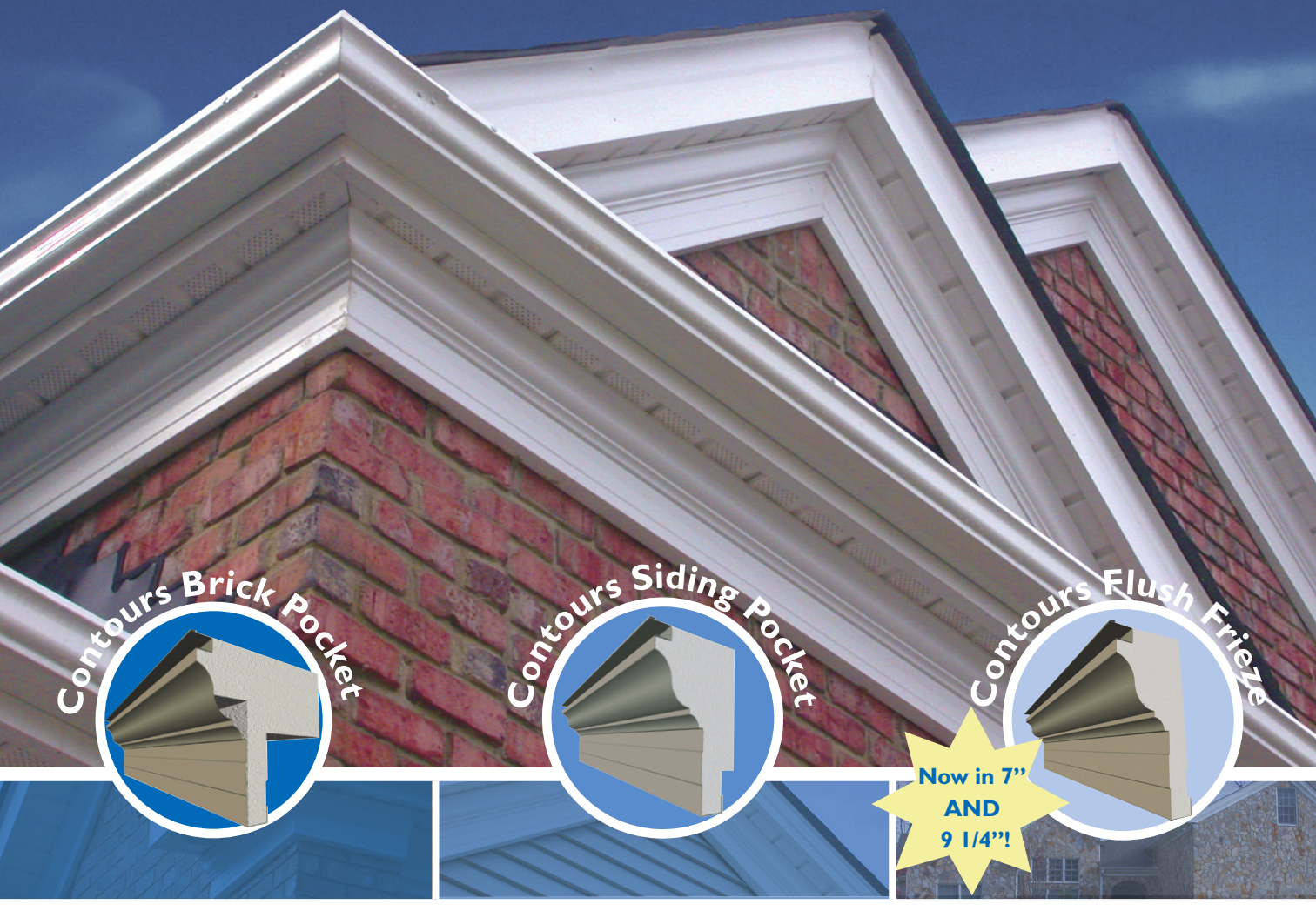

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Ideal Homes

Corporate Profile: Ideal Homes is a Norman, Okla.-based builder serving the Oklahoma City metro area with 16 communities for first-time and move-up buyers. Ideal Homes had revenues of $57 million in 2005, closing 435 homes. The company is Oklahoma's largest home builder, and operates an in-house mortgage company which handles an average of 60 percent of the company's closing.

Mission: Ideal Homes' mission is to offer quality, affordable homes, today and tomorrow, based on the vision of building the American dream through mutually beneficial relationships with customers, contractors and co-workers.

Ideal Homes values quality in building the best performing homes through its people and processes. It holds integrity in being honest, reliable and accountable and promotes leadership for inspiring higher performance from others through its actions.

Management Team: Gene McKown, co-owner, president of development; Vernon McKown, co-owner, president of sales; Todd Booze, co-owner, president of construction; Millie Eubanks, vice president of sales; JaRee Stambeck, chief financial officer; Russ Gammill, director of purchasing; Brian Rice, director of operations.

Strategic Goals: The company approaches management as a process that requires continuous improvement. Ideal Homes centers its strategic goals through a number of "key result areas" including, but not limited to:

- innovation and marketing leadership through research, customer feedback on products
- improving communication processes and systems
- customer satisfaction with the goal of having 95 percent or more of customers willing to refer
- employee training
- community outreach

For 2005, Ideal set a number of ambitious one-year goals which included increasing revenues to $57 million, increasing gross margins, number of actual home sales, closing and traffic to model homes. Long-term goals include steady increases in many of these areas. Notably, by 2007, Ideal Homes plans to open a second operation in another market.

Judge's Comments: "The company's people and culture are the strongest areas of Ideal Homes. The company has positively influenced the entire Oklahoma City/Norman building industry. Ideal has chosen to run their business by 'doing the right thing' to drive results."

(from left to right) Russ Gammill; Millie Eubanks; Vernon McKown; Gene McKown; Todd Booze; JaRee Stambeck; (not pictured - Brian Rice)

Desserts

Shea Homes San Diego

Corporate Profile: Shea Homes San Diego (SHSD) is part of the J.F. Shea Co. Inc. family of companies. Established in 1881, Shea is one of the oldest and largest privately held operations in the United States. Started in 1968, Shea Homes builds homes and develops master-planned communities throughout California, Colorado, Arizona, North Carolina and Washington. With more than $2 billion in annual revenues and eight home building divisions, Shea Homes employs more than 1,400 associates.

Shea Homes launched its San Diego unit in 1985 which builds single family and multifamily attached homes in cities and municipalities throughout San Diego County. Currently, SHSD has 11 communities under construction, 10 in the design phase and five pending land acquisitions.

Mission: SHSD seeks to enhance people's lives as part of the core companywide vision at Shea Homes to be the most respected builder in the country.

Management Team: Paul Barnes, division president; Bryan Binney, vice president, operations; Michael Brekka, vice president, land acquisition and community development; Cindy Roush, vice president, sales; Teri Shusterman, vice president, marketing; Pete Gouvis, vice president, branch manager, Joe Anfuso, director of finance, business analyst; and Laura Vuolo, registered in-house counsel.

Strategic Goals: SHSD establishes firm goals for customer satisfaction, quality, trade partner satisfaction, associate commitment and business performance. Its entire senior management team conducts rigorous planning to set company goals for improved results around these drivers.

Building restrictions and environmental issues mean SHSD needs to continue to move away from traditional single-family detached housing in coming years, toward higher-density housing. The transition requires changes around SHSD's project and construction management functions and sales environment. SHSD recently hired a vice president of land acquisition and community development with extensive experience in high-density housing and has recently aligned to work closely with Shea Properties, its sister organization, to develop properties that mix commercial spaces with housing.

Judge's Comments: "SHSD's key processes are well defined using high performance approaches. Customer satisfaction is an integral part of the vision, mission and values of the company. Results of improvements relating to operational effectiveness, customer satisfaction and product quality are communicated to all levels of employees throughout the company. Partnerships with trade contractors and suppliers are an industry best practice with systematic integration addressing the goals and objectives of the organization."

(Standing from Left to Right) Paul Barnes, Michael Brekka, Pete Gouvis, Cindy Roush, Bryan Binney (Sitting) Joe Anfuso, Teri Shusterman

Veridian Homes

Corporate Profile: Veridian Homes of Madison, Wisc. is a semi-custom production builder of single and condominium homes. Family-owned and operated, Veridian was formed in 2003 through the merger of Don Simon Homes and Midland Builders, two of Wisconsin's oldest and most respected home builders. Veridian is Wisconsin's largest home builder.

Mission: Dream. Build. Live. Veridian's mission is to build great homes by never losing sight of what is important: customers, employees, communities and the environment in which we live.

Management Team: David Simon, president of operations; Jeff Rosenberg, president of land acquisition and development; Jeff Simon, president of Marshall Towne Millwork (former executive vice president of operations, Veridian Homes); Gary Zijicek, vice president of construction; John Maasch, vice president of sales, marketing and customer relations; Jeff Hackel, vice president of human resources; Bill Bublitz, vice president of finance; Dan Gorski, vice president of estimating, purchasing and design; and Don Esposito, vice president of land acquisition and development.

Strategic Goals: Veridian has formed strategies around product and market diversification, integrated planning through the entire development cycle, improving sales and marketing effectiveness and managing costs. These strategies are created with an eye on customer loyalty and business profitability. To foster loyalty, Veridian sets strategies for market research, product development and increasing the effectiveness of the sales team. To ensure profitability, Veridian focuses on cost control.

Judge's Comments: "Veridian is a company of fun, hard working, well intentioned people that work with a uniform vision and produce outstanding results that virtually set the bar for others in almost every area. Veridian understands and embraces its mission, vision and values. This must be understood for leaders to set priorities for their leadership activities."Employees are completely aware of the vision, mission and values of the organization – they live them daily and use them as a guide in their work. Customer and Trade Partner focus is a key part of performance management and this is highlighted in how work systems are designed and how trade partners are involved in providing proactive improvement and frequent weekly 'even-flow' meetings. This includes the support of Trade Partner Certification."

(Back row, Left to Right) Dan Gorski, Bill Bublitz
(Second Row, Left to Right) Gary Zajicek, David Simon, Jeff Rosenberg, Don Esposito, John Maasch
(Front Row) Jeff Hackel

COTTAGE
FOUR SQUARE

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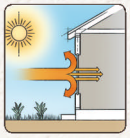

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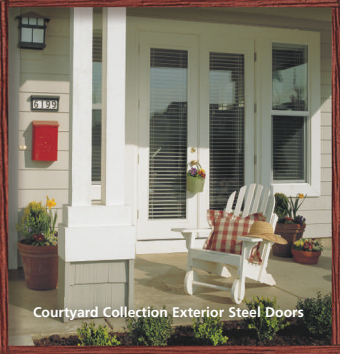

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(Back row L to R) Tracy Yeadon, Todd Richardson, Jay Collins, Mark Boyce
(Front row L to R) Pat Jarrett, Dan Horner, Bryan Lacey, Bob Kehlor

SILVER

AWARD WINNER

C.P. Morgan

Corporate Profile: C.P. Morgan is a residential land development and home building company serving the metropolitan Indianapolis and Lafayette markets in Indiana and Charlotte, NC. Headquartered in Indianapolis, C.P. Morgan is the first home builder in Indiana to receive the Better Business Bureau of Central Indiana's Torch Award for Business Ethics.

C.P. Morgan is also the only builder/developer in the country to have been awarded four national awards for building with nature. C.P. Morgan has built more than 16,000 homes in more than 100 neighborhoods and has received national recognition for quality community development.

Mission: C.P. Morgan's mission is to provide more square feet for less money, more choice and an enjoyable building experience.

Management Team: Chuck Morgan, chairman and chief executive officer; Dan Horner, president and chief operating officer; and Mark Boyce, executive vice president of development.

Strategic Goals: C.P. Morgan strives to be a low-cost producer of first time and first-time move up new homes. The company does this by

- ✔ listening to the buyer in identifying the significant market
- ✔ creating a value proposition to determine what the significant market values
- ✔ creating an environment of operational excellence to deliver what the significant market values

To gain valuable market insight and customer feedback, C.P. Morgan relies on extensive market research surveys to local home buyers as well as to its customers. The builder's use of this information and a number of operations processes have allowed it to steadily gain favor as a builder of choice: customer satisfaction increased from 91 percent in 2003 to 98 percent in 2005.

Judge's Comments: "C.P. Morgan makes good use of feedback from stakeholders to continually improve the leadership function. It has great leadership demonstration. [It] started up the Charlotte location in 2005 and by the third quarter of 2005 had more than 600 home sales."

(From L to R) Brian Nagle, Ken Knorr, Alan Parrow, Tony DeLuca, Dan Laemont

SILVER

AWARD WINNER

Pringle Development

Corporate Profile: Eustis, Fla.-based Pringle Development is a developer of active adult communities and builder of single family homes in Central Florida. The company has a record for more than 20 years focusing on the Florida retirement community concept, offering complete architectural design services for pre-designed and custom homes.

Pringle Development was founded in 1981, and has developed six active adult communities with more than 5,000 home sales. In 2004, the company became employee owned. It also operates a resale division specializing in its own communities and homes.

Mission: Pringle takes an unwavering approach in applying its founders' core ideals of trust, integrity and doing the right thing. The company strives to become America's most successful employee-owned home builder by delivering greater value to its customers than available from competitors.

Management Team: Alan Parrow, president/chief executive officer; Ken Knorr, vice president of quality assurance and business solutions; Brian Nagle, vice president of sales, marketing and design; and Tony DeLuca, chief financial officer and vice president of accounting

Strategic Goals: Pringle undertakes significant strategic planning efforts to stay on top of the 55-plus market and ensure it continues to meet its customer needs. Each February, it sets key success goals such as numbers of leads, visits and home closings. In 2004, Pringle established "Tiger Teams," for strategic planning by small teams that address specific issues and problems.

Judge's Comments: "Pringle has established communication channels within the organization that facilitate the effective deployment of its vision. Leaders are highly visible and engaged as role models in driving the vision and ensuring that all employees are aware of how it connects to everyday work. Strategic challenges are documented, deployed and monitored through the use of performance indicators. Continual improvement is managed through the use of 'Tiger Teams.'"

(Seated L to R) Don Delgiorno, Tim Sprague, Randy Tarr
(Standing L to R) Chris Stephens, Shelly Stewart,
Bruce Tripp, Renee Gervais

SILVER

AWARD WINNER

KB Home Nevada

Corporate Profile: KB Home Nevada is a division of KB Home. In fiscal year 2005, the company delivered homes to 37,140 families in the United States and through its subsidiary in France. KB Home Nevada, headquartered in Las Vegas, serves the Las Vegas metropolitan market—including a growing number of communities in Summerlin and Henderson—selling and building single family homes. These homes include attached and detached entry-level, attached and detached first move-up and detached second and third move-up homes.

Mission: KB Home is committed to building quality homes and relationships, and to providing service that results in complete customer satisfaction.

Management Team: Don DelGiorno, president; Shelly Stewart, executive vice president; Randy Tarr, senior vice president, land development and forward planning; Chris Stephens, senior vice president, division counsel; Bruce Tripp, senior vice president, land acquisition; Tim Sprague, vice president, finance; Ryan Wells, vice president, operations; and Renee Gervais, vice president, sales and marketing.

Strategic Goals: KB Home Nevada sets goals around customer satisfaction, employee growth and development, operational excellence and financial performance. Critical business performance measures include an annual customer satisfaction rating greater than 95 percent, year-to-year revenue growth greater than 15 percent and zero warranty claims over 17 days. The division also maintains a strategic plan for human resources which identifies and develops 'bench' employees whose growth and development is critical to meet its business plan and future growth.

Judge's Comments: "KB Home Nevada creates excellent newsletters, letters, flyers and other communication pieces aimed at promoting and educating quality standards. Their homeowner warranty orientation process is well designed and provides good customer education. The company fosters true partnerships with its trade contractors."

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BEST PRACTICES:
C.P. Morgan
Leadership

With strong Midwestern work ethic, Indianapolis-based C.P. Morgan believes a company's values define the essence of an organization. Its vision? To provide more people with more home than they ever dreamed possible. To this end, C.P. Morgan leadership is formed on the foundation of functional competence and execution, with an eye to deliver more home at a value price to customers.

Close communications. C.P. Morgan uses an integrated structure around leadership which directly contributes to the company's ability to consistently meet goals. Each functional area of the company has an executive team member reporting directly to president Dan Horner. The executive team works closely to initiate action in each leader's area of responsibility involving people strategies, methods, standards, training and processes. The focus is then shifted to directors and manager who drive the team's execution.

Hands on. C.P. Morgan's highly visible method of leading means mid-level and executive management are frequently in the field. For example, company executives visit the company's new Charlotte, N.C. market on a weekly basis to coach and mentor field associates. Other support includes:

- quarterly corporate meetings attended by all C.P. Morgan associates
- monthly leadership training for city level directors and monthly meetings for city and corporate directors with the executive team
- weekly meetings with president Horner, the executive team, directors and managers: managers report on weekly field inspections and develop weekly action items
- rewarding success at the company including monthly "Mojo" awards which encourage associates to go beyond expectations and recognize synergy
- through a partnership with Soderquist Center for Leadership, an annual "Team Synergy Month," with activities focused on leadership in the form of team-building exercises and hands-on training

Support tools. Other C.P. Morgan initiatives also contribute to highly visible leadership. Ultimately, these tools and processes drive performance, helping the company fulfill its vision and mission:

- Use of online "dashboard" technology used by the executive team and each department to track results against key measurements. These measures are reviewed monthly, weekly and sometimes daily
- an Expectations Committee, a cross-functional group which assures every company process produces the desired result in customer satisfaction
- Idea Pipeline to give a forum for any employee's idea for process improvement

Pringle Development

Strategic Planning

Planning is about setting an effective game plan with focus. Eustis, Fla.-based Pringle Development improved its planning processes and success rates with a focus that company leaders derived from "Tiger Teams."

Tiger Teamwork. Adapting a concept originally employed by the U.S. military, Pringle's Tiger Teams typically comprise of a small number of employees representing various disciplines at the company. Like a tiger going after prey, the teams sharply focus on very specific targets—issues that arise in the course of growing the business.

During the last 18 months, Pringle has used more than 20 such teams to attack issues ranging from strategic planning, to more tactical areas as diverse as compensation and pay grades, application for NHQ awards and inventory management of marketing materials.

By all accounts, the Tiger Teams are working. In the area of designing its strategic plan for 2005—a document critical to guide the company's future growth—company president Alan Parrow directed a Tiger Team that met bi-weekly for several months. Each member accepted assignments, researched facts and proposed solutions which were then debated and modified by top management. The company identified not only strengths, weaknesses, threats and opportunities, but also core competencies which could be leveraged to gain market share.

Teaming for NHQ recognition. Pringle likewise formed a Tiger Team to prepare an application for the 2006 NHQ award. Consisting of five senior executives, each member accepted a section to author which was subsequently presented to the whole team, debated and then finalized on content before presentation to Parrow for final approval.

Overall, Pringle has found the focused Tiger Teams bring more accountability while promoting action and problem solving among the team and company. Most recently, a team was formed to take the company toward formal NHQ certification. That team, responsible for developing a coherent Quality Manual, conducted gap analyses and recommended areas for continuous improvement and has now finished its work.

BEST PRACTICES:

Veridian Homes

PERFORMANCE MANAGEMENT

To guide decisions and behavior, Veridian has articulated 27 values divided into six key drivers: customer delight, innovative environments, unparalleled quality, lasting relationships, best practices and quality commitment. Managing performance at Veridian touches upon these areas, organized around 10 major business functions. Performance management includes the following programs; many of which dovetail with the company's vigorous employee training and development efforts:

1) HomeTracker – innovative customer relations software program that tracks all customer communication, including the home orientation, 30-Day visit and 11-month visit, all in an effort to ensure excellent service.

2) Home Towne – Veridian's custom-built lead management system which has been integrated with other applications to facilitate extensive reporting, lot management processes, lot reservation features, e-mail notification, live internal updates, mail merge, search tools, prospect management toolset, sales staff goal assignment and centralized Realtor contact management.

3) Annual NHQA Self-Assessment and ongoing NAHB Research Center certification efforts – In addition to a self assessment around the NHQ award given annually, Veridian is a NAHB certified builder in most of its 10 areas. Veridian's Builder Certification currently covers Quality, Safety and Environmental Management for the following departments: sales, construction,customer relations/ warranty, land development, purchasing and estimating. Veridian's design coordinators will be coming onboard shortly and will be followed by drafting.

4) Environmental programs – Veridian's management system has been expanded to include an environmental management program. It also participates in the Green Tier program, a new program for environmentally responsible businesses in Wisconsin, and the first program of its type in the nation. It makes legal commitments to improve environmental performance: for example, it supports the Green Tier Clear Water Initiative, a charter aimed towards reducing harmful sediment loading to Dane County's lakes and streams.

Veridian partners with other county and state agencies to work toward reducing soil erosion and storm water runoff beyond that required by current state and local statutes. The company received the 2006 FET (Federation of Environmental Technologists) Governor's Award for Excellence in Environmental Performance.

KB Home Nevada

Customer Satisfaction

KB Home Nevada strives to be the builder of value and choice to homebuyers in the Las Vegas market. A decentralization at this building Giant brought customer service to the local level. The builder's business model now centers around its unrelenting commitment to customer service: every employee is responsible for ensuring the highest standards of customer service are met.

KB Home is the first Giant to work with the NAHB Research Center to implement the National Quality Certification Program on a national level, after successfully implementing the pilot program in Las Vegas as the prototype for the company's nationwide rollout. The program requires all subcontractors to become certified via a thorough educational NAHB program.

High ratings. In 2005, KB Home Nevada maintained its top three ranking in customer satisfaction among Las Vegas homebuyers for the third consecutive year for J.D. Power and Associates' New Home Builder Customer Satisfaction survey. The ranking was based on responses from more than 73,300 homebuyers of new homes in top markets for rating 10 areas, such as customer service and home readiness. Overall, KB Home receives the highest ratings in price/value and builder's design center.

Compared to other builders in the Las Vegas region, KBHN scores high in three areas of customer satisfaction: quality of workmanship and materials; price and value; and home design. KBHN also conducts regular surveys of its homebuyers to determine their customer satisfaction throughout the home buying experience.

In action. Efforts to execute customer-focused principles at KB Home Nevada include:

- "Say Yes" customer service philosophy includes working with homeowners at the local level to resolve concerns quickly
- Conducts three formal meetings with the homeowner:
  1. Pre-construction meeting with the superintendent before construction begins
  2. Pre-drywall orientation at the home mid-way through construction
  3. Homeowner Orientation once construction is completed
- a "Community Team" dedicated to each home including construction, sales, and customer service representatives for frequent updates and walk-throughs during each construction phase
- In addition to third-party inspections, a "Q-10" 10 point quality inspection process on every home includes inspections at pre-start, structural, utility, pre-drywall, pre-paint and final phases, plus a "Community Team Walk" by the team
- Provides a 10-Year Limited Warranty

Human Resources

Ideal Homes

Hiring Practices and Profit Sharing Plan

Ideal Homes goes to great lengths to hire right and then keeps employees with an attractive profit sharing plan.

Ideal founders and management believe the key to building a superior company lies in recruiting and retaining exceptional personnel. Ideal customized its own extensive interviewing and hiring processes based on the book *Topgrading* by Bradford Smart (Prentice Hall, 1999). Ideal's practices includes:

- pre-screening phone interviews with all candidates
- work history interviews, often two to three hours in length
- detailed reference checks of each potential candidate
- once candidates are pared to a leading few, they participate in individual one-hour interviews with each of four company executives
- executives then meet to made a group decision on the best candidate for the job

After six months of employment, every employee participates in Ideal's profit sharing plan at the same rate. Funds are paid each quarter based on two qualifying factors:

1) net profits of five percent or more
2) customer satisfaction surveys, conducted quarterly, must meet the company's yearly benchmark.

Veridian Homes

Employee Feedback and Training Programs

Veridian believes employee development is the heart of a respected company. The Madison, Wisc.-based builder is one of the few in the industry that conducts in-depth weekly one-to-one meetings with associates. The meetings cover a review of accomplishments, frustrations, issues or obstacle resolution, setting of new goals, review of goals and discussions about personal development. Managers then have the opportunity to conduct on-the-spot training during these one-on-one meetings based on the conversation.

To identify what other training needs exist, Veridian supplements these meetings with surveys including employee satisfaction and leadership 360° feedback. It also surveys its trade partners. The company also gleans feedback from its employee and trade partner advisory councils.

Specific performance feedback is also documented in its performance planning and development process and its employee incentive program, GainShare. The builder also provides specific, formal training, including:

- Dale Carnegie public speaking courses
- PDR (Practice, Drill, Rehearse) process for sales, construction and customer service
- First Aid/CPR
- OSHA Site Safety

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BEST PRACTICES:
Ideal Homes
Construction Quality

Well-built homes are the core of any builder's reputation. Ideal Homes of Norman, Okla. enjoys a national reputation for energy-efficient homes. It tracks building statistics on a monthly basis and compares outcome to competitors.

Ideal Home's rigorous construction-quality processes include:

Contractor management: Agreements with contractors detail the scope of work for each completion stage. Ideal associates frequently meet in the field with contractors and train crews to expectation. New practices and procedures continually flow from these meetings.

Inspections: Ideal inspects every job performed by contractors for its complete scope of work. If the job is satisfactory, the Ideal superintendent releases the job to the next contractor and pays the purchase order. In addition to weekly inspections of every home by production managers, a detailed pre-drywall inspection is performed.

Smart House Energy Consultants, a third-party inspector, verify insulation, mechanical equipment and flashing on every home. The third-party inspections ensure Ideal's standards are met along with those in the national Engineered for Life (EfL) program. Plus, one in six Ideal homes are randomly selected by Smart House for a final inspection to ensure the tightness of the house envelope and the duct system via blower blower-door tests.

Trade Steering Committee: Ideal meets with its major trade contractors on a quarterly basis. One outgrowth has been a trade evaluation form used on every job to collect data on a weekly basis. Contractors and Ideal superintendents use the data to identify trouble areas and assist with project planning on future jobs.

Energy efficient: Ideal is a leader in energy-efficient homes. In 1997, the EPA recognized Ideal as the first "5 Star" energy-value rated building in the United States for entry level homes under $150,000. In 2005, Ideal Homes built the nation's first Zero Energy Home under $200,000, featuring a solar cell energy system, ground-source heat pumps for heating and cooling and tankless hot water systems which conserve energy.

Ideal applies its energy-efficient learning into all its homes by applying emerging technologies. Years ago, Ideal was the first builder in its region to use environmentally friendly "Low-e" vinyl windows. Ideal now builds all its homes with fresh-air ventilation systems which is critical because its homes are built tight with about five percent energy leakage compared to industry averages on new homes at 25 percent to 30 percent leakage.

Shea Homes San Diego

Trade Relationships

Valuable partners. Performance-minded. The San Diego division of Shea doesn't view its trade contractors as simply vendors, but as valuable contributors to the company which support its continuous improvement culture. All contractors – SHSD currently works with nearly 155 contractors – must adhere to the company's core values of honesty and integrity, respect, teamwork and competitive spirit.

Trade Partner Council: To ensure these principles, SHSD manages a Trade Partner Council that meets monthly with an eye toward project improvement to discuss industry practices, solve problems and distribute information. The Council consists of principals from eight primary contractors such as framers, carpentry, HVAC and plumbing firms, as well as several SHSD staff, including two construction managers, a purchasing manager and process improvement analyst. Contractor principals actively contribute to building better homes and the entire Council acts as a liaison for all SHSD contractors.

Scorecarding: One invaluable outgrowth of the Council was realized in 2004 in creating a performance management program to ensure trade partner accountability and quality as well as to objectively award contracts based on performance, not price. Now, SHSD draws from a variety of qualitative and quantitative sources, including site audits, customer satisfaction surveys, and its work scheduling system to derive periodic scorecards for each contractor based on their specialty. Performance metrics are determined by SHSD's five point system around quality, safety, schedule, financial and customer satisfaction. Monthly reports are generated for each partner coupled with an overall scored based upon each metric.

Partnerships in action: Full-year 2005 figures reveal marked improvement in customer satisfaction, customer service and quality levels at SHSD over the prior year, directly attributable to the monthly scorecarding system. During 2005, more than 50 percent of SHSD contractors exceeded the company's goals in each of these three areas.

SHSD operations staff, including its improvement analyst, regularly visit trade contractors in their offices, working closely with them to explain scorecard reports, work toward continuous improvement and address automation issues. SHSD also hosts quarterly trade breakfasts, open to all its contracts, to discuss workload planning, SHSD growth plans, financial and other issues, all of interest to contractors.

Award Program in Review

How To Enter

The National Housing Quality (NHQ) Awards give the **highest recognition in the housing industry for quality achievement**. Unlike many award programs, though, the greatest benefit of the NHQ Awards may not be the recognition — it is the application process.

Patterned after the Malcolm Baldrige National Quality Award, the 14th annual NHQ Awards are sponsored by the NAHB Research Center and *Professional Builder* magazine. Entries are judged by panels of experts who evaluate the role that customer-focused quality plays in construction, business management, sales, design, and warranty service.

Winners of the National Housing Quality Awards are **featured in *Professional Builder***. All applicants receive a valuable feedback report containing suggestions for improvement from the judging panel.

The NHQ Awards program has two divisions:

The NHQ Home Builder Awards are open to all U.S. companies that build residential homes for sale using light construction methods.

The NHQ Trade Contractor Awards are open to all U.S. independent contractors that provide construction services to home builders or remodeling companies.

Winners are recognized in three categories:

Gold – Awarded to companies that have attained a national benchmark level within each area of evaluation. Gold award-winners have mature quality management principles that are fully integrated, and consistently demonstrate high-level and sustained financial results.

Silver – Awarded to companies that are industry leaders in most evaluation areas. Silver award-winners have many refined business practices, including key measures for continual improvement, and exhibit good financial results.

Honorable Mention – Recognizes companies that demonstrate an understanding of quality management principles and show a sound fact-based improvement process. Key measures are in place and good financial results are achieved in most areas.

NAHB Research Center

The NAHB Research Center promotes innovation in housing technology to improve the quality, durability, affordability, and environmental performance of homes and home building products. Created more than 40 years ago as a subsidiary of the National Association of Home Builders, the NAHB Research Center has established itself as the souce for reliable, objective information and research on housing construction and development issues. The Research Center seal is internationally recognized as a mark of product quality. Since 1995, the Research Center has been managing and expanding its National Housing Quality program, which includes the National Housing Quality Awards.

Professional Builder

For nearly 70 years, PROFESSIONAL BUILDER has been a leader in the residential construction industry. Published within the Reed Building Group division of Reed Business Information, PROFESSIONAL BUILDER reaches 127,000 building professionals every month, delivering proactive solutions and innovative ideas for builders seeking information on best practices and emerging issues. Also published by Reed Building Group are PROFESSIONAL REMODELER, CUSTOM BUILDER, and GIANTS in addition to the HOUSINGZONE.COM website.

NHQ Awards Judging

A panel of judges evaluates the applications and selects finalists that demonstrate high levels of quality achievement.

Finalists will meet NHQ Awards examiners for an on-site review.

Additional information requested during the judging process may include lists of customers for a satisfaction survey to be performed by the NAHB Research Center, company references and other information related to the judging criteria.

Companies may enter a division or the company as a whole. Multiple winners in each category may be selected. Previous Gold Award winners are eligible to apply in the third year after they have won.

Company Profile: Provide a brief history of your company, types of products and services offered, market and geographic areas served, competitive situation, new business directions, and other relevant information. If submitting a division of a larger corporation, describe the operating relationship to the parent company.

Judging Criteria

1. Leadership. How do senior leaders guide the organization toward a common purpose with shared values and priorities?
2. Strategic Planning Process. How do you create and carry out a strategic plan to achieve a future vision, enhance competitive position and improve overall performance?
3. Performance Management. How are business processes developed, managed and improved to achieve performance excellence?
4. Customer Satisfaction. How do you manage the design and delivery of products and services that lead to high levels of customer satisfaction?
5. Human Resources. How do human resource practices contribute to the growth of the organization by looking at employee selection and development, as well as staff performance management, well being, motivation, satisfaction and compensation?
6. Construction Quality. The purpose of this section is to check the key drivers of quality in the home construction process and how you ensure high-performing, trouble-free products and services.
7. Trade Relationship. How do you create high-performance relationships with independent contractors you hire?
8. Business Results. High performance business practices are effective only if they result in business benefits as defined by tangible financial, operational, customer satisfaction and product/service quality measures.

Notes: Lists of items to consider for each question are included in the NHQ Awards Application Kit available from the NAHB Research Center.

Request a Free Application Kit

Free NHQ Awards Application Kits are available from the NAHB Research Center by email to rknab@nahbrc.org or by phone at (301) 430-6225. The kit contains application forms and helpful reference materials.

Application Fees and Deadlines

Deadline:

Applications for the 2007 NHQ Awards must be received by March 31, 2006.

Fees:

$925 for businesses completing 100 or fewer homes annually

$1,225 for businesses completing more than 100 homes annually

$600 for each additional site visit, if required

Send to:

NAHB Research Center
400 Prince George's Blvd.
Upper Marlboro, MD 20774-8731
Phone: (301) 430-6225
Fax: (301) 430-6180
Email: rknab@nahbrc.org
www.nahbrc.org

The National Housing Quality Awards will be presented at the *Professional Builder* Benchmark Conference September 26 – 29, 2006 at the Ritz Carlton, Lake Las Vegas.

Business Results

The Payoff

In scoring applicants for the National Housing Quality award, each of the first seven categories – leadership, strategic planning process, performance management, customer satisfaction, human resources, construction quality and trade relationships – represent an equal number of points. The final category – business results – accounts for 30 of the possible 100 points an applicant can score. The reason for the weighting is simple: quality management must be a tool to build a more profitable business.

The path to superior financial performance is as varied as the organizations listed on the facing page. While each of these organizations achieved honorable mention, silver or gold awards, none of them did it in the same way. What they all have in common is the metrics to measure their business performance on every front. Review the list below, Metrics That Matter, to begin your measuring your performance in business critical areas. Remember, what is measured can be improved.

Metrics That Matter

Leadership

- Employee evaluation forms/ satisfaction survey
- Communication effectiveness
- 360 evaluations/reviews

Strategic Planning Process

- Quarterly reviews
- Monthly measurements
- Weekly evaluations
- SWOT analysis (Strengths, Opportunities and Threats)

Performance Management

- Process improvement team actions/outcomes
- Process improvements
- Job cost cycle time
- Contract signing to dig start cycle time
- Framing to occupancy cycle time

Customer Satisfaction

- Willingness to refer at time of closing
- Willingness to refer after one year
- Average number of days to complete a service order
- Home buyer process satisfaction (sales, construction, orientation, design center, options/upgrades, mortgage/closing procedures)
- Product quality: home buyer satisfaction with workmanship/ installation, products/materials
- Warranty cost per house (percentage and dollar amount)
- Top three warranty cost line items
- Annual product surveys
- Realtor surveys

Human Resources

- Employee turnover percentage
- Average cost of employee training per year
- Average training hours per employee per year
- Employee satisfaction
- Employee development plans
- Employee retention
- Recruitment success rate

Construction Quality

- New home orientation
- Punch list sign-off
- Service list sign-off
- On-time closings
- On budget performance (per home, per community)
- Safety – number of accidents per 100 employees
- Even-flow production – performance against plan

Trade Relationships

- Job evaluation forms (measure job readiness)
- Trade partner satisfaction surveys
- Schedule variance analysis
- Chargebacks

Business Results

- Profit – gross and net
- Return on equity
- Debt to equity ratio
- Sales – units and dollars
- Revenue by product
- Market share
- Sales per employee
- Profitability per employee
- General and administrative expenses (percentage of revenue)
- Land assets

2006

Shea Homes San Diego - Gold
Veridian Homes - Gold
Ideal Homes - Gold
CP Morgan - Silver
Pringle Development Inc. - Silver
KB Home Nevada - Silver

Past Winners

2005

Grayson Homes	Gold
Pulte Homes (National)	Gold
Ideal Homes	Silver
Estes Builders, LLC	Silver
Veridian Homes	Silver
Pringle Development, Inc.	HM

2004

Grayson Homes	Silver
Boardwalk Builders	Silver
Schuck and Sons	Silver

2003

History Maker Homes	Gold
Pulte Homes Minnesota	Silver
Fairmont Homes	Silver
Neumann Homes	Silver
ALL-tech	Silver
Tappe Construction	Silver
Grayson Homes	HM

2002

Don Simon Homes	Gold
Shea Homes Colorado	Gold

2001

Palm Harbor Homes, Florida Division	Gold
Simonini Builders	Gold
Don Simon Homes	Silver
Winans Construction Inc.	Gold
Stebnitz Builders	Silver
Cupertino Kitchens	HM

1999/2000

Shea Homes Arizona	Gold
Sunrise Colony Companies	Silver
The Green Companies	Silver
Traditional Concepts Inc.	Gold
Legacy Custom Builders Inc.	Gold
Deck America Inc.	Gold
Lasley Construction Inc.	Silver
Bell's Remodeling	HM

1998

Neumann Homes	Gold
The Estridge Co.	Gold
T.W. Lewis	Silver
Fairway Construction	Gold
Remodeling Designs Inc.	Gold
Kendale Inc.	Gold

1997

K.Hovnanian Enterprises	Gold
Kennedy Community Development LP	Gold
U.S. Home Corp. Houston	Silver
Coventry C onstruction Inc.	Gold
Eren Design & Construction	Gold
Asdal Builders LLC	Silver
Fairway Construction	Silver
Mitchell, Best & Goldsborough Inc.	Silver

1996

Mercedes Homes Inc.	Gold
Rayco	Gold
Shea Homes San Diego	Gold
Triple Crown Corp.	Gold
Neil Kelly Co.	LRD
J.J. Swartz Co.	LRD
Criner Construction	SRD
Kleinco Construction Services	LRD
Crown Construction	HM

1995

Doyle Wilson Homebuilder Inc.	Gold
John Wieland Homes Inc.	Gold
Oakwood Homes	Gold
Pulte Homes Illinois	Gold
Toll Brothers	Gold

1994

The Drees Co.	Gold
Kennedy Home Builders	Gold
Village Builders	Gold

1993

Cannon Development	Gold
Carmichael & Dame Builders	Gold
Fieldstone Communities Inc.	Gold
Town & Country Homes	Gold
David Weekley Homes	Gold
Winchester Homes	Gold

HM: Honorable Mention
LRD: Large Remodeler Division
SRD: Small Remodeler Division

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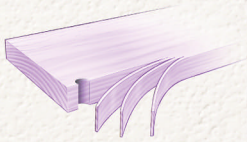

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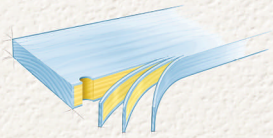

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Exterior Premium Pine Door 1871AP

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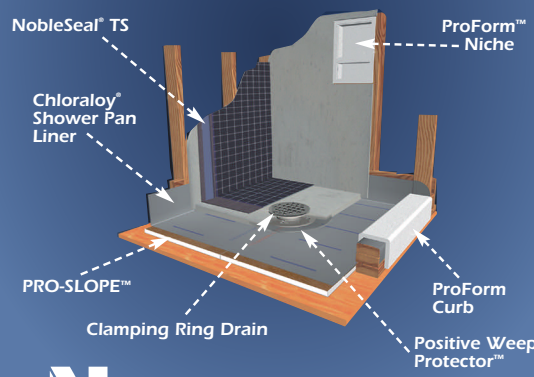

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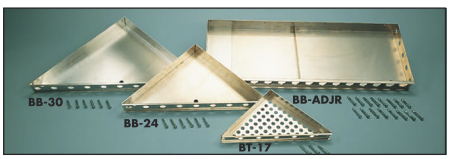

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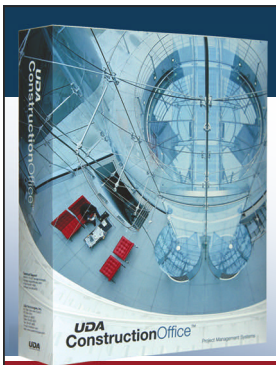

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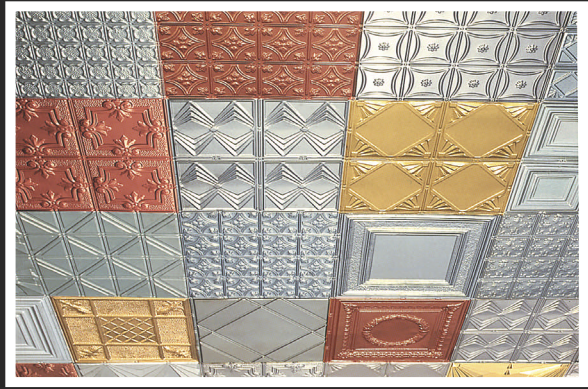

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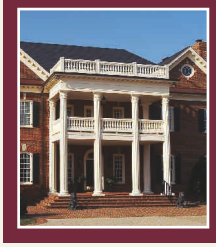
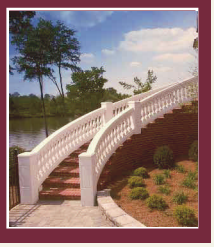

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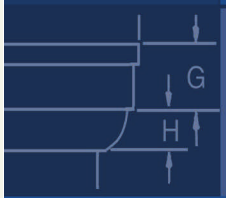

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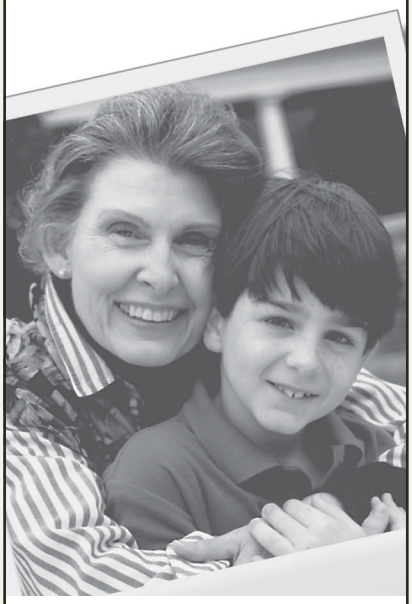

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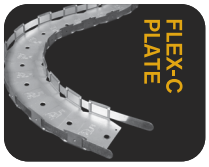

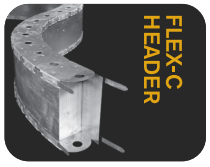

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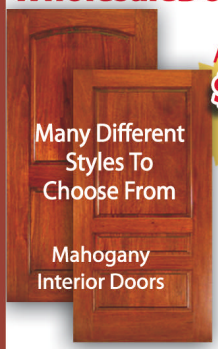
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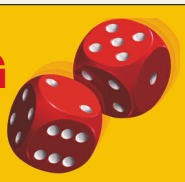

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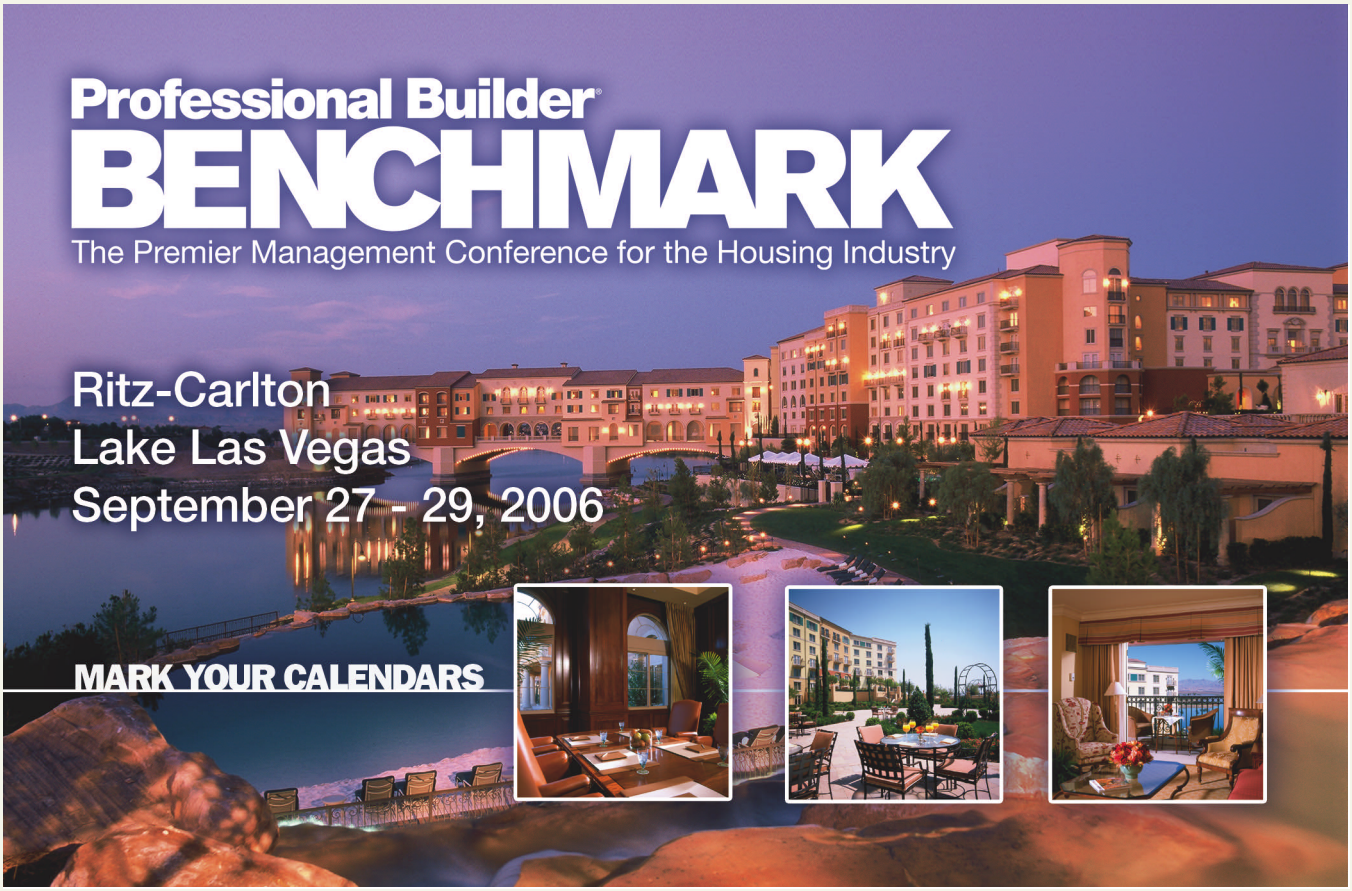

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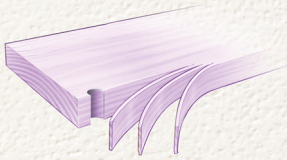
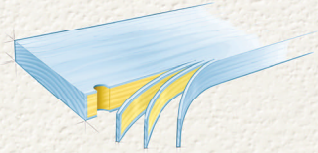


AuraLast™ Wood

A unique vacuum/pressure process provides virtually 100 percent penetration of the protective ingredients from the surface to the core.



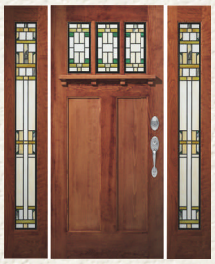
Dip-Treated Wood

Dip-treated wood is only protected on the surface.

Throw everything you know about wood out the window.

Exterior Premium Pine Door 1863AP

Wood Radius Casement Window



Exterior Premium Pine Door 1836AP

Wood Double-Hung Window

AuraLast THE WORRY-FREE WOOD

20 YEAR WARRANTY

JELD-WEN® windows and doors with AuraLast™ wood will remain beautiful and worry-free for years. Unlike dip-treated wood, AuraLast wood is protected to the core to resist decay, water absorption, and termite infestation for 20 years. That's added protection for any building project. To learn more about AuraLast wood and all our reliable windows and doors, call **1.800.877.9482** ext. **1014**, or go to **www.jeld-wen.com/1014.**

RELIABILITY *for* real life™

JELD-WEN® WINDOWS & DOORS

For FREE information circle **63**