

TENNESSEE HomeBuilder

Nov/Dec. 2008

Official Magazine of the Home Builders Association of Tennessee

Surviving



Also in this Edition:
**Meet Senator
Jim F. Kyle**



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TENNESSEE HomeBuilder



November/December
2008



WHO WE ARE

The Home Builders Association of Tennessee (HBAT) is a not-for-profit trade association comprised of professional builders, developers and associated firms engaged directly or indirectly in home building, remodeling and light commercial construction.

MISSION STATEMENT

The Home Builders Association of Tennessee represents over 5,500 member firms as the Voice of the Housing Industry. We advocate housing affordability and availability through:

- Legislation
- Communication
- Education



In this edition of the Tennessee Home Builder, meet Senator Jim F. Kyle, 28th District - part of Memphis, and learn more about important builder news and legislative issues.

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TENNESSEE HomeBuilder

DIRECTORY

TN HomeBuilder is the official publication for the Home Builders Association of Tennessee.

Annual subscription rate for members of the association is included in the association dues.

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213 Fifth Avenue North, St. 200
Nashville, TN 37219

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(931) 379-0814

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-InDesign

-Photoshop

-Quark Express

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May be sent to—

tnbuilder@comcast.net or

TN HOME BUILDER

P.O. Box 1916

Columbia, TN 38402

www.tnhomebuilder.com

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HARD TIME FOR HOUSING

Creates Hard Times for the Entire Economy

As a state and as a nation, I believe it is time to recognize the true importance of the homebuilding industry. The fact is that fifteen cents of every dollar spent in this nation is spent on housing. It is the engine that runs this country. The importance of residential construction on local economies proves beyond a shadow of a doubt that regulations and legislative decisions must always be based on fair, common sense solutions that promote the best interests of the important economic catalyst of the building industry.

While the federal government has stepped forward with a series of emergency actions to stabilize and restore confidence in the financial markets, it's now time for the same sort of innovative thinking at the local and state levels where public officials are grappling with budget shortfalls that are putting a squeeze on spending for everything from schools to public safety and other essential services. Job losses and declining tax revenues resulting from the deep housing slump and the decline in property values require state and local governments to consider innovative ideas to help put the housing market back on track.

National Association of Homebuilders Chairman, Sandy Dunn, recently pointed out that solutions on the local level "... could range from foregoing impact fees on new development to allowing higher density zoning to build more affordable housing and streamlining the entire development review process. It is also important that cities and counties extend existing zoning approvals while builders work out financing for new projects. By encouraging new development rather than penalizing it, local governments will be helping to create a new business environment that will generate jobs, stabilize property values and get the housing market back on track."

Now is the time to take measures that

will help stimulate the housing sector and boost local economies. A newly released National Association of Homebuilders study estimates that in 2008, on average:

- Construction of 1,000 new single-family homes creates 3,049 jobs and generates more than \$89 million in tax and other revenues for federal, state, and local governments.
- Construction of 1,000 new multifamily rental apartments creates 1,155 jobs and generates more than \$33 million in tax and other government revenues.
- \$100 million worth of residential remodeling activity creates 1,109 jobs and generates more than \$30 million in tax and other government revenues.

The estimates are based primarily on industry accounts published by the U.S. Bureau of Economic Analysis, part of the national accounting system that is used to produce official estimates of Gross Domestic Product.



Dave Ramsey, a Tennessee icon and a national economic guru, suggested the following as part of his "Common Sense Fix" for the economy:

CAPITAL GAINS TAX

- a. Remove the capital gains tax completely. Investors will flood the real estate and stock market in search of tax-free profits, creating tremendous—and immediate—liquidity in the markets. Again, this costs the taxpayer nothing.
- b. This move will be seen as a lightning rod politically because many will say it is helping the rich. The truth is the rich will benefit, but it will be their money that stimulates the economy. This will

enable all Americans to have more stable jobs and retirement investments that go up instead of down.

Mr. Ramsey finished his economic fix with this statement: *"This is not a time for envy, and it's not a time for politics. It's time for all of us, as Americans, to stand up, speak out, and fix this mess."*

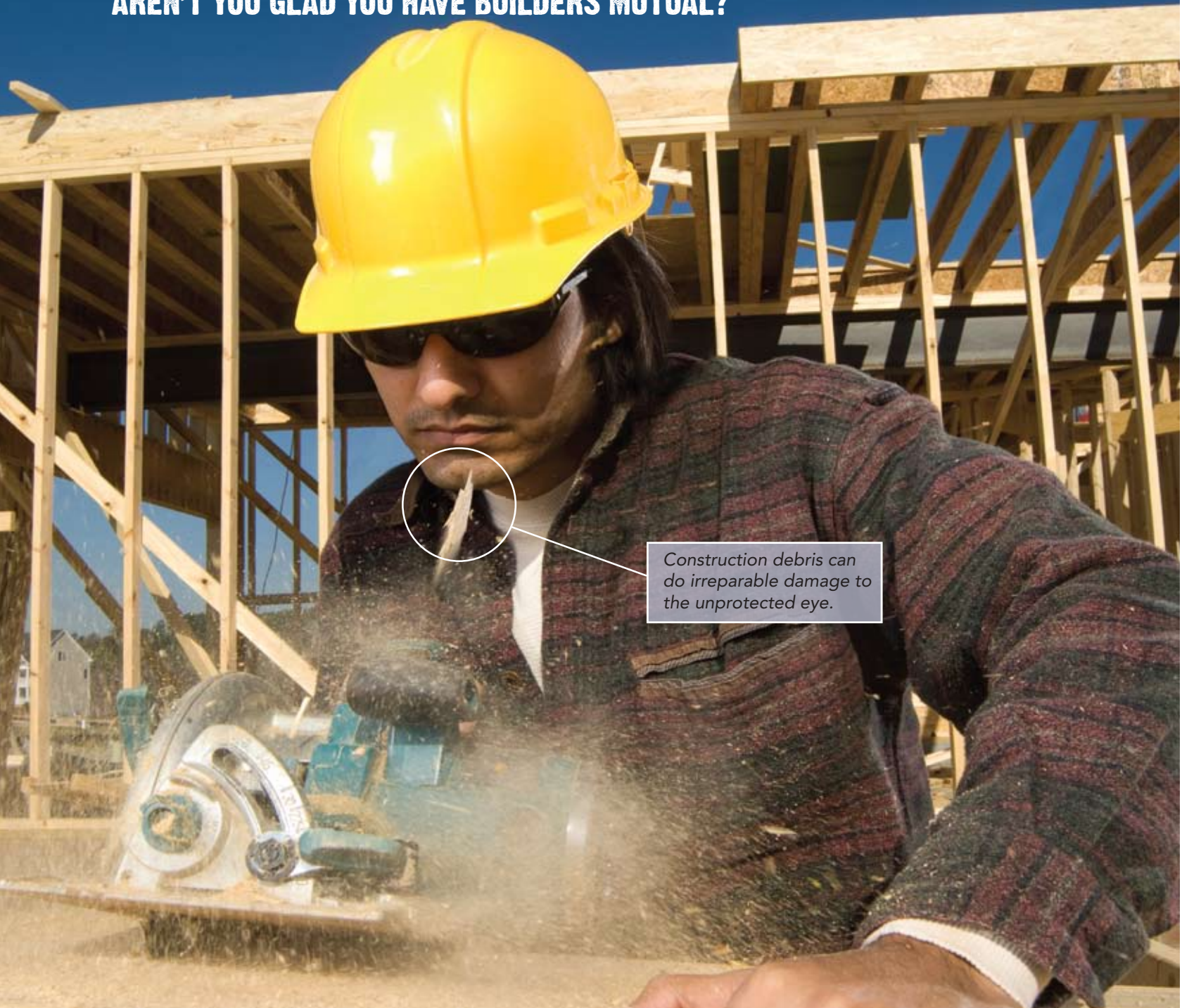
As someone who makes a living in the homebuilding industry, I could not agree more. Today, we must get past the bureaucracies, the political bickering and the thought that homebuilding needs to be the scapegoat of the current economic problems.

In this edition of the Tennessee Homebuilder magazine, we will focus on surviving. That is what our industry must do, and that is what this association must do. As 2008 draws to an end, and we face what seems to be an uncertain economic future, I challenge each of you to remain diligent and passionate about your membership in this association. I also challenge you to get out and get involved in your local government and let them know how important our efforts are to their communities. It is also time for each member to become committed and devoted to the mission of recruiting others to join this association.

Finally, since this will be my last article as the 2008 President of the Home Builders Association of Tennessee, I would like to thank my fellow members for allowing me to have the privilege of serving in the place of my brother, Denzel Carbine. As I expressed in my first article this year, you have honored me and my family in a way that can never be matched.

Denzel had an unmatched passion for life and this association, and I know that he would encourage everyone to "turn up the heat" and work for a stronger Tennessee building industry in the future. ❖

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Surviving Smart and Planning for the Future

Executive Officer Outlook

Susan Ritter, HBAT
Executive Vice President



I read an article recently about turning adversity into advantage. The article pointed out that individuals and businesses “must reinforce success and build on strengths. In adversarial endeavors such as sports and politics, victory can only come from relentlessly using one’s strengths against the opponent’s weaknesses. No sports team ever won a championship by focusing on their own weaknesses. No politician ever won office by admitting to his or her weaknesses. We may not like that, but that’s the way the world works.” So I challenge each of you today to focus on your strengths and decide that the only option we have in the Tennessee building industry, and in this association, is to survive and succeed.

As Tom Reilly, author of *How to Sell and Manage in Tough Times and Tough Markets* states, “You can thrive (in this market), but it doesn’t happen by accident. It starts with attitude, since attitude drives behavior, and we become what we believe. You must get yourself in the right frame of mind.”

According to Reilly, 70 percent of companies survive the tough times, 25 percent of businesses will fail and 5 percent will actually grow and thrive during this period. Which percentage do you want to fall in? It is perhaps the most important question to ask yourself, and to find the answer, we must go back to business management basics. You need to do your research—and these slower times are the perfect excuse to find some quiet time and think about these questions:

1. **What is your position in the marketplace today?** What are your distinctive advantages and will they continue to be

What is success?



(Portions of this article developed from the NAHB Women’s Council by Karen Dry and Linda Hebert and Richard Martin’s article, “Great Leaders Turn Adversity into Advantage.”)

To laugh often and much;
To win the respect of intelligent people and the affection of children;
To earn the appreciation of honest critics and endure the betrayal of false friends;
To appreciate beauty;
To find the best in others;
To leave the world a bit better, whether by a healthy child, a garden patch or a redeemed social condition;
To know even one life has breathed easier because you have lived;
That is to have succeeded.
– Ralph Waldo Emerson

valid? You can determine this fairly easily by simply jotting down how many and who your competitive businesses are within your area be it your community, local, statewide or nationwide. How are those competitors fairing? Are you doing worse or better than they are? If you’re doing worse, what are they doing or offering their clientele that’s different?

2. **How much of the market share does your company have in the industry today?** If the market continues to shrink, can you manage additional loss of market share? Once you’ve determined your market share by evaluating your competition, determine if what you offer your clientele is unique enough to entice future business. You can do this by simply creating a pros/cons list of what you do versus what your competition does.
3. **What is your current cash flow?** How much does it take to sustain your business on a monthly basis? In general, most thriving businesses try to have a cash flow that would cover a minimum of six months of operation. We suggest putting a simple Excel file together of basic overhead expenses that you pay whether you have work contracted out or not.
4. **What do your current accounts payable and receivables look like?** Some business owners don’t actually have a grasp of what money is owed to them or whom they owe. When times are good and cash flows easily, we forgive and forget many of the smaller invoices. If you’ve put off collecting or billing some items, you could be missing easy cash to hold your company over through leaner months.
5. **How is your client loyalty?** Now’s a good time to pick-up the phone and connect with each of your clients, both the new and the old. Find out how they’re doing, if they need your help or if they have any new business available to you. Don’t be a fair-weather friend—loyal clients stay loyal because they feel a connection to you and want the best for you. If you’ve been the vendor, supplier or contractor that they’ve come to rely upon, they don’t want you to fail any more than you want to fail. Finding out and listening closely to their criticisms, their ideas or asking for referrals are excellent ways to evaluate how your clientele feels and what makes them happy.

Someone once said that “**Smooth Seas Never Make Skillful Sailors.**” It is in the times of adversity that we truly define who we are. Hard times make businesses develop and define what they do best, and they learn how to best capitalize on their products and services. Our industry will weather the rough seas and the storms of our current economy, and when this economic cycle has ended, we will all be stronger, wiser and better prepared for a future of success. ♦

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PREPARE FOR

Change!



Legislative Review
Steven Cates, Chair
Government Affairs Committee

Now that we know the outcome of the 2008 federal and state elections, one thing is certain—change. There has probably been no other time in recent history when we have faced more potential for change in our nation, our state, our economy and our industry.

From a federal perspective—the change is historic, and the question is how will these changes affect the political balance of Congress and the efforts our association has made in working with those who are currently in power? Tied closely to this change is the current economic situation in which we find our country's financial future. As we all know, our industry is one of the backbones of the financial success of this country, and without a strong homebuilding industry, we will not have a strong U.S. economy. We need strong support on the efforts of the National Association of Home Builders to urge those in Washington to do whatever is necessary to provide the financial stability to our industry and assist homebuilders to make a strong recovery.

In Tennessee, we are also facing the

prospect of significant change. In January we begin the first session of the new 106th General Assembly. With a larger than normal turnover of seats in both the Senate and House, we begin again to establish relationships and alliances with those who make the laws governing our industry in Tennessee. With the changes and the makeup of the legislature, there will be inevitable changes in committee leadership in both houses and new members becoming acclimated to the legislative process. As in the past, the Government Affairs Committee and the HBAT staff will be calling upon you regarding your relationships with new legislators and your ability and willingness to contact them when there are important matters pertaining to our industry. These new members represent an opportunity to develop strong relationships with our industry. It is our job to make sure they understand the importance that the homebuilding industry has in the economic strength of Tennessee.

During the past session, we were extremely successful in our legislative efforts. We defeated a number of bills that would have been detrimental to our industry, and likewise, we helped to pass legislation that will be beneficial to our members.

In 2009, we are sure to face the continuing challenges of immigration reform, workers' compensation issues, water quality, green building practices, codes, growth taxes and fees. These issues that can so drastically affect our industry must be studied and given the proper attention during their development on Capitol Hill in Nashville.

This is why I encourage you to be diligent in participating in local government and keeping membership numbers strong. We will all strive to survive from a business standpoint and never lose focus

of the legislative challenges that demand our involvement.

Want To Really Make A Difference?

First, participate in town meetings. Mingle with local, state and federal politicians. Learn about the issues facing your community. Meet others who support the same causes you do. Voice your opinion, and see what offices in politics appeal to you.

The Home Builders Association of Tennessee encourages members to get out there and run for local office. Civic offices come up for re-election all the time. Find a position you know you could excel in and start your campaign. Call your local political party, and ask if there are offices up for election. Take to the streets, and let people know you are the person for the job. Getting involved can help your community and your association.

And of course, the most important way that you can help prepare for change is to participate in HIPAC and BuildPAC. Through the efforts of our state and national political action committees, we work to keep in constant contact with the appropriate legislative bodies to track proposed legislation that will have an impact on our industry. ♦

GET INVOLVED!
STAY INVOLVED!
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Safety



in a Slowing Economy

By Technical Insurance Services, Inc.

We have seen the slowing in residential construction, but how does this affect workers compensation costs? The state of Minnesota released data in 2001, following the September 11 attack, comparing the slowing in the building industry and workers compensation cost. To their surprise workers compensation rates actually increased even though construction productivity decreased. The cost rise occurred for two reasons: the number of claims reported grew and the time of disability lengthened. ***It is believed the fear of layoff increases claim activity during slow times.*** As a precaution, employees might “incur” injuries to remain on the payroll receiving benefits.

One example in the report occurred at a major manufacturer that announced it was going to have to downsize; one plant, employing 225 workers, was forced to close. As the plant closed, the employees filed nearly 400 workers’ compensation claims for injuries on the job, despite having filed only six in the entire previous year. The increase in claims caused the company’s revenues to drop nearly

40 percent. If your employees are paid hourly or per unit, a decline in production may lead to the same proportionate increase in claim activity.

The study also found that the time of disability increased when work was slow. Workers had a tendency to remain away from the job and in rehab or therapy for longer periods of time. So how does one protect their company from higher claim activity and increased premium?

The best solution is to closely watch your workers on the job and monitor their work methods. Provide them with necessary personal protective equipment and regularly conduct safety communications. Try to work your employees in areas where they are trained and comfortable.

Technical Insurance Services has provided loss control services to members of the HBA-SIT since 1995. These services are also available to non-HBA-SIT members. If you are interested in developing safety training for your company please contact John Hilbrandt at 423-400-7233 or at skinnutt@hotmail.com.

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Meet Senator Jim F. Kyle



Memphis Tennessee can boast of being the birthplace and inspiration for music genres such as “The Blues” and “Rock and Roll.” Elvis Presley, Johnny Cash and B.B. King all got their starts in Memphis. The city can take its share of bragging rights when it comes to its rich, diverse history, mouth-watering southern cuisine and unmistakable icons such as Beale Street and Sun Studios.

Memphis has produced a vast array of famous personalities like Cybill Sheperd, Morgan Freeman and Aretha Franklin. But even beyond the glamour of Hollywood and Motown, Memphis Tennessee continues to produce important Tennessee leaders who have dedicated their lives to public service. One of those individuals is Senator Jim Kyle.

James F. Kyle, Jr., born October 14, 1950 in Memphis, Tennessee, is a member of the Tennessee Senate for the 28th district, which is composed of part of Memphis. He has served as a state senator since the 93rd Tennessee General Assembly, and he has been elected the Democratic Leader since the 104th General Assembly.

During the 95th General Assembly, James F. Kyle, Jr. was the Democratic Caucus Chairman, and during the 96th through 100th General Assemblies, he was the Chairman of the Select Oversight Committee on Corrections. Jim Kyle holds membership on the Senate Finance, Ways and Means Committee, the Senate Calendar Committee, the Senate Judiciary and the Senate Late Bills Committee.

He is married to Sarah Kyle who serves as Chairman of the Tennessee Regulatory Authority which is similar to most state’s Public Service Commission. They have four children, Sarah, a graduate of Lambuth University; Mary, a graduate of Rhodes College; Jim, III, a rising freshman at Auburn University; and Caroline, age 10.

Jim Kyle graduated from Arkansas State University in 1973 with a Bachelor of Science degree in Marketing. He was a member of Tau Kappa Epsilon fraternity and a recipient of the Distinguished Service Award at graduation. In 1976, he obtained a J.D. from the University of Memphis School of Law. He possesses membership in the Memphis Bar Association. From 1994 to 1998, he served on the Board of Governors of the American Correctional Association. He is also a member of Ducks Unlimited and serves on the Board of the University of Memphis Law School Alumni Association. Senator Kyle is a member of the law firm of Domico Kyle, PLLC in Memphis, Tennessee.

For a brief period during 2007, Senator Kyle was the Minority Leader in the Senate, with the state republicans holding a one seat majority over the Democrats. Only a few months later, however, Republican Senator Mike Williams switched parties to become an Independent, establishing a 16-16-1 ratio in the Tennessee Senate. This made Kyle the Majority Leader, rather than Minority Leader.



In our continuing efforts to introduce our readers to important Tennessee leaders, the Tennessee HomeBuilder magazine submitted the following questions to Senator Jim Kyle. Here are his responses:

1 During the 105th General Assembly you lead the push for passage of SB2400 relative to scrap metal, scrap metal dealers, theft and criminal trespass. While it has just gone into effect October 1, what are your initial feelings regarding the effectiveness of this new law?

Thus far, the feedback we have received from those on the frontlines of this problem, the business owners and law enforcement officials, has been positive. We have been in communication with the police departments that helped us pass this bill, and their feeling is that while it’s early, they are much better equipped to deal with this crime than they were before we passed this law.

As for the response from scrap dealers, it is important to note that when we began this process, we had no idea how many scrap dealers were even in this state. With the new requirements of registration, the Department of Commerce and Insurance has now identified over 500 scrap dealers who have either registered or are currently in the process, and I believe that number will continue to go up. Knowing who and where these people are throughout Tennessee will be an invaluable tool for law enforcement as we move forward.

When we think about gauging the effectiveness of SB 2400, we have to realize that we are doing is regulating an industry that had previously operated without any such guidelines. Obviously, in any situation like that, it is going to be a complex process, and time will tell us if any adjustments will need to be made to protect Tennessee’s business owners.

2 Also, in this legislation, there is a provision that increases the penalties for criminal trespassing on a construction site. What effect do you see this having on the reduction of construction site thefts in Tennessee?

To understand how to reduce the incidence of construction site thefts, you really have to understand just how rampant the problem had become, something most Tennessee homebuilders are all too aware of. In my hometown of Memphis, there were 433 cases of copper theft in 2006. Only a year later that number increased to 1156 reported cases, an increase of 167 percent.

Prior to the passage of SB 2400, we held a special study com-

mittee to really try to understand all facets of the copper theft epidemic. We were lucky enough to have Doug Collins, an HBAT member, with us on that committee. He provided a first hand perspective of how construction site theft has affected Tennessee's homebuilders.

When it came to specifically addressing construction site theft in this bill, the request was made from the home building industry that we address it. And I think that the thieves who have been preying on construction sites will be deterred when they learn that there is absolutely no tolerance for this sort of criminal activity.

3 With the current market conditions, what effect do you see an economically stronger home building industry having on the economy of Tennessee?

I have always viewed the home building industry as one of the great "motherships" of economic growth. Home builders directly employ thousands of Tennesseans, but it is also an industry that extends into so many other economic arenas and occupations. That being said, I think the chances of Tennessee's economy improving without the home building industry being shored up are very slim, and at this point we seem to be facing a situation far outside the realm of any individual state.

The takeovers of Fannie Mae and Freddie Mac, the Wall Street crisis, and the decreasing confidence of American consumers have all been part of the formula for our current economic crisis. What we all hope is that the Emergency Economic Stabilization Act passed by Congress will be the first step towards reestablishing the conditions that home builders need: credit availability for businesses, halting the drop in home prices and stemming the tide of foreclosures.

4 What role do you see state government playing in encouraging a strong homebuilding industry in Tennessee?

I think the primary role that state government can play in building a strong homebuilding industry is demonstrated



by the process we followed in drafting the copper theft legislation we just discussed. That bill was the model of how a citizen legislature should function: a problem was brought to the attention of the legislature by citizens, we studied the problem with the industries that it concerned, and we crafted a law that addressed the issue in an appropriate fashion. I think responsiveness like that is how we can make Tennessee's legislature more accessible and thus, strengthen Tennessee's homebuilding industry.

As for other specific actions we can take, one action will be for us to retain Tennessee's current method of selecting judges. While this may seem to be unrelated to the concerns home builders, the fact is that this is a state where business owners can operate without fear of activist judges proving political points with judicial rulings. In fact, the American Justice Partnership Foundation recently recognized Tennessee as the most business-friendly state in the nation when it comes to litigation. Who presides over our courts, and how those that preside are selected affects all Tennessee's businesses, including homebuilders.

—Continued on page 27

Interesting Memphis Facts from Senator Kyle's Home Town:

- Memphis is the Pork Barbecue Capital of the World.
- Memphis is the home of the first Greyhound and Continental Trailways bus lines.
- Memphis is home to FedEx, the world's largest overnight package delivery company.
- Memphis is home to St. Jude Children's Research Hospital, founded in 1962, by entertainer Danny Thomas.
- The Piggly Wiggly, the world's first self-service grocery store, opened in Memphis in 1916.
- Memphis is the hardwood capital of the world.
- Memphis is the largest spot cotton market in the world, with nearly half of the U.S. cotton crop going through Memphis.
- 24 of the 97 stars featured in the Rock'n'Roll Hall of Fame are from within a 100-mile radius of Memphis.

Homebuilding History in Memphis



Kemmons Wilson 1913-2003 • MEMPHIS

Already one of Memphis' best known and most successful homebuilders with a knack for building larger, nicer homes at a better price than his competitors, Kemmons Wilson co-founded with Wallace E. Johnson the Holiday Inn motel chain. He did so in response to his frustration at having to pay a surcharge for his children at roadside motels during a family vacation in 1951. Hallmarks of travel lodging Wilson introduced included standard room rates as well as air conditioned rooms, free ice, and greater cleanliness. This high school dropout, who got his entrepreneurial wings selling popcorn in a movie theater, eventually sold the motel chain, which at one point numbered 1,700 locations, but launched several new companies under the Kemmons Wilson Co. umbrella that his family now runs.

DEVELOPING AN ATTITUDE OF SUCCESS AND SURVIVAL DURING TOUGH ECONOMIC TIMES

During training, Green Berets are exposed to the kind of conditions and treatment they might endure if caught by the enemy. In mock-POW camps, they are hooded, blindfolded, mistreated and pushed to the breaking point. Green Berets receive SERE (Survival, Evasion, Resistance and Escape) training to help them remain one step ahead of the enemy or to escape when caught. But instruction can't predict everything that may come up in the field. So a Green Beret receives perhaps his most important training—how to adapt and think on his or her feet. This is a great analogy for those who will survive the current economic downturn. It is impossible to predict every obstacle that will arise in the future. But we all must be ready to “ADAPT AND THINK ON OUR FEET.”

Christopher Lochhead, the former chief marketing officer at Scient and Mercury, offers this advice on how companies can do more than pray for survival in a prolonged economic downturn. It's easy to be great when things are going great. The real test of leadership is who you are when things are tough. Leaders take market share in bad times, and losers lose share, money, and market advantage. Since we seem to be heading into a multi-quarter (or maybe longer) downturn. Planning for a long downturn is the right approach, even if you think this is just a blip.

Strategy 1: Don't cut the budget

The first thing scared executives do in bad times is cut spending. It's easy. But often completely wrong. J. Paul Getty said, “Buy when everyone is selling. And hold until everyone is buying.”

Downturns are time to invest in:

- New technology
- New marketing campaigns
- New people (hire the best salespeople, product developers, etc. from your competitors, especially those doing layoffs and missing their quarterly numbers)
 - New products
 - New companies (buy or start some)

Strategy 2:

If you have to cut, DO IT FAST. DO IT ONCE.

- If your business is truly in trouble, then you may be forced to cut. Most companies wait too long and don't cut deeply enough. Tear off the Band-Aid.
- If you have data that is telling you things are really bad, assume it is even worse. Don't get caught thinking it is just one bad quarter. There is no such thing. Cut at least 10 percent more than your CFO tells you to.
- Remember there is nothing worse for morale than doing multiple layoffs. Never mind the bad PR and the multiple whacks your stock will take.

Strategy 3:

Put your best people on your biggest project.

Legendary people produce legendary results. During a downturn take your best executive, regardless of their background, and put them in charge of the big projects:

- New technology
- New marketing campaigns
- New hires
- New product development
- New companies

Downturns are great opportunities for change and growth. (Information gathered from news.cnet.com – article by Dan Farber)

NAHB Chief Economist, David Seiders points out that the “near term housing outlook has darkened.” Seiders reported in early October that “Fixed-rate home mortgage credit remains available at reasonable rates through the FHA/VA/Ginnie Mae system as well as through Fannie Mae and Freddie Mac—the GSEs currently under federal conservatorship.

With respect to our baseline (most probable) forecast, we've essentially kicked out the projected lowest points in new-home sales, housing starts and residential fixed investment by one calendar quarter and deepened the declines modestly in the process. The projected peak-to-trough (lowest point) declines easily stack up as the deepest since the 1930s.

However, there is good news — most of the projected decline is behind us, and the growth potential from the cyclical trough is immense.”

So how does a Tennessee homebuilder develop a plan for survival in tough economic times? We asked several successful, past presidents of the Home Builders Association of Tennessee to comment on how they have survived tough economic times in the past. Here are their responses:

Look at your situation from the worst case position and make your plans from there. If things turn out better, you are no worse off for having planned for the worst.

If you have debt with banks meet with them early and often to let them know your situation.

Be honest with yourself about the reality of this slow down and the length of any noticeable recovery and look at every part of your business for ways to save and stretch your assets to the max.

Tim Neal
HBAT Past President
2006

Secretary of State, Polonius said to his son Laertes in Shakespeare's Hamlet "neither a borrower or lender be." That is the best advice today. Get debt free immediately and stay out of debt, and this economy will be academic. Debt is what got us into this mess.

Sit down with your entire family and come up with a plan to love each other and a plan to focus on how to survive this downturn. This includes a budget.

Read as much as you can on survival and attend meetings to educate yourself professionally. Go back to school if you have the years in front of you.

Jackson Downey
HBAT Past President
1989

Seek out the benefits of your local, state and national associations as you have never done before. Work as a team and take advantage of every aspect of your membership. Accentuate your best abilities, and have faith.

David Parsons
HBAT Past President
2007

1. Keep your lender up to date and don't sugar coat it.
2. Evaluate every aspect of your organization balancing cost against need and effectiveness.
3. Pray.

James Carbine
HBAT President Current/Past
2005/2008

- Work with local banks and keep them informed about your business.
- Manage your balance sheet.
- Do business with reputable suppliers and subcontractors who are members.

Network with fellow HBA members and ask questions. Your membership in this association has never been more important than it is today. Seek out the experience of others who have survived tough times, and brainstorm new, fresh ideas. Now is the time to be a team, prepare your business for the short term challenges and remember that there are better days to come.

Earl Sharp
HBAT Past President
1986





Live to Fight Another Day

A successful Florida builder for 35 years, Barry Rutenberg offers his insights on how to survive the housing downturn

Barry Rutenberg believes builders must focus on the quality of their operations and maintain profitability and liquidity to take advantage of future opportunities.

—By Barry Rutenberg

In my 35 years in the home building business, I have never seen a time where so many of my colleagues are as frustrated as they are today. With a few exceptions, demand for new homes is minimal in most communities and home builders are developing new business strategies in order to survive.

I have no easy answers, but I can share what we have learned in the past during downturns as well as offer some ideas that might be useful to you.

Right now, it's important to focus on the quality of your operation and strive to take your share of whatever market exists in your area. The object is to maintain liquidity so that you can take advantage of future opportunities.

Your personal attitude is extremely important. Your customers, employees, subcontractors and vendors are looking to you for strong and steady leadership. You must show enthusiasm, work hard, and exude confidence in the future even while you make the painful decisions that will allow your company to survive.

Your corporate attitude is important as well. My company just opened a new model home in our local builders association's Fall Parade of Homes. Over the next several weeks, we are hosting several functions at the new model home for our past customers, prospects, Realtors, and local business leaders. We hope to differentiate ourselves with enthusiasm and a new and innovative model home.

But it's also very important to take an honest look

at your market and your place in it. Don't rely on your own intuition. Get as much third-party feedback as you can from brokers, focus groups, and past customers. But in the face of it, be positive and make sure everyone on your team is positive about the fact that now truly is a great time to buy a home.

Today, cash is king. Open your mind to selling assets to decrease debt payments. We are having some success selling lots (with an option to repurchase) to prospect who wants to build a home in a year or two. Lenders and partners will look favorably on those companies that recognize reality and act appropriately.

Expense your land and inventory home carrying costs of interest and taxes so you can sell assets closer to market value. Consult your accountant. If you can expense the interest and taxes for tax purposes, you may be able to reduce your tax liability or qualify to receive a refund based upon taxes paid in previous years.

Consider refinancing your model home or other assets with untapped value. Consider getting second mortgages on assets as a basis of a line of credit. Look for unsecured lines of credit and new lines of credit, and increase the number of banks you are engaging. Community banks may be friendlier than the big banks now, especially those smaller banks with which you have developed some relationship.

Work with your trades professionals and suppliers on competitive pricing and ways to work together to reduce costs. Don't sacrifice quality for a low-ball price. Remember that your subcontractors and suppliers are your partners, not your enemies.

Watch your material prices. It is more likely that material prices will increase than decrease further. Work with your suppliers to obtain longer-term pricing-and-availability commitments.

"Be flexible with your prospects. You'll do more special stuff now than you ever dreamed of doing in the good times."

Many customers smell blood in the water and are looking for a great deal. Be prepared to let some offers pass. But in a time of declining values, don't let your pride keep you from accepting something reasonable. There is a price that will make the sale. Update your appraisal. Do your own market analysis. Talk to a knowledgeable broker. The market does not care about historical cost. Know as much as you can about your prospect. There might not be a second chance to sell to that prospective buyer.

Support your sales staff, especially if they have a new idea on how to spur sales. Spend money on well-placed promotion and training. Shop the competition and bring back ideas you can implement quickly.

Keep your design team engaged with the sales team. Your office personnel can have ideas too so don't ignore them. Bring in part-time people as needed for special projects to improve the quality of the company.

Be flexible with your prospects. You'll do more special stuff now than you ever dreamed of doing in the good times.

Invite people for a wine and cheese party in an inventory home; do specific time-frame promotions (This weekend only! Or each Sunday in a particular month); and engage your Realtors with special promotions and incentives.

The key person in your organization needs to be available to prospects and homeowners and be prepared to meet in the evening and weekends. Return calls within 24 hours and settle questions within 48 hours unless you advise the homeowner otherwise.

Walk your inventory. Be prepared to rip out and make changes. In this market, you may only get one chance to capture a prospect's attention.

On a personal level, don't take out your frustration on your spouse or children. Look on the positive side and count your blessings. This too shall pass. And remember, laughter is still the best medicine. ❖

Barry Rutenberg is the president of Rutenberg & Associates, a custom home builder and remodeler in Gainesville, Florida, and the Area 5 National Vice Chairman representing Florida and Puerto Rico on the Executive Board of the National Association of Home Builders (NAHB).

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Houses in the Year 2025

Surviving with the Trends for a Green Future

Understanding the future trends of marketing products towards individuals who are increasingly mindful of environmental issues can help your company be ready for a “greener” marketing position. Those who survive in the future will market themselves as being environmentally conscious, technology experts who are ready for the tech-savvy requests of generation Y.

Few home buyers know that in these environmentally conscious times, a typical residence built today is considerably more “green” than the most energy efficient home of a decade ago. And the home of 2025 could push these trends further. Within a generation, homes, apartments, condominiums and townhouses could become energy self-sufficient or “zero energy” green building residences.

Green building is more than just energy efficiency; it also incorporates resource efficiency and environmental stewardship. Builders are learning to reduce and reuse job site scrap and waste, to recycle building materials from houses and other buildings that are being razed, to design and build an advanced energy-efficient and environmentally-efficient building, to use building products containing recycled materials, and to take advantage of solar technologies.

Outwardly, the residences of 2025 may look like the homes of today, but they will not perform the same. Not only will they continue to provide comfort, secure shel-

ter and privacy, they will also serve as a centralized hub for organizing continuing education, health maintenance, fitness, communications, entertainment, and work productivity. In addition to these added features, these homes will perform better. They will be more durable and require less maintenance and repair. Water and energy efficiency will be optimized through the use of sophisticated controls. In fact, homes are expected to be able to diagnose their own product and system failures prior to a breakdown and alert service professionals to schedule timely preventative repairs. Many of these repairs to appliances and other computerized equipment will be performed remotely through the Internet, and the owner will not even be aware that a repair has been made.

The residence of 2025 should be a net energy producer, not a consumer. Through the use of advanced conservation techniques and energy efficient appliances like fuel cells, the building’s energy use will be kept to a minimum, while photovoltaic roofing and mini-turbines will supply power to the house and could even produce excess power for sale to utility companies operations.

The way homes are constructed will also change significantly over the next 17 years. Industrialized housing and components will become even more commonplace than they are today, and technical innovations will allow construction that uses only the materials necessary without the waste often seen on

construction sites.

With concerns over water and wastewater throughout the country and the world, expect homes to use little to no net water in the future and to virtually eliminate the need for waste water treatment. Homes will recycle water back through the home for multiple uses. In fact, waste water treatment systems can already produce effluent that is drinking water quality.

Finally, the information explosion will continue to have a significant impact on how we build. Commuting patterns could change because the home office will be indistinguishable from the work environment in many sectors of the economy. E-commerce will create a better environment when we can use our home to place orders instead of going out, or when our smart homes can arrange deliveries so that delivery companies can reduce needless trips.

With all of these innovations it’s safe to say the house of the future will be built greener, better, with more energy efficiency and high tech features. For home buyers in the year 2025, this is news to look forward to.

Want to get ready for Green Future of homebuilding? Why not become a Green Professional and get the Green Marketing Advantage now? Just check out the Education area and the Calendar of Events at www.hbat.org. You will find an updated listing of educational opportunities throughout the state.



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During the 105th General Assembly, the HBAT worked to have the punishment for unlawful entry to posted property increased to the charge of Aggravated Criminal Trespass punishable by imprisonment for up to one year a \$2,500 fine. This section of the law is part of the Public Act 690 relative to scrap metal, scrap metal dealers, theft, and criminal trespass and was passed in response to the large increase in thefts of cooper, HVAC equipment and appliances from construction sites.

Tips from your industry experts—

If you weren't wearing it, jobsite thieves would probably steal the shirt off your back. They have little regard for contractors. Did you hear about the thief who burglarized the house, only to steal the front door, too, on his way out? Talk about adding insult to injury! Just like the building industry can be a booming business, so can the business of stealing from it.

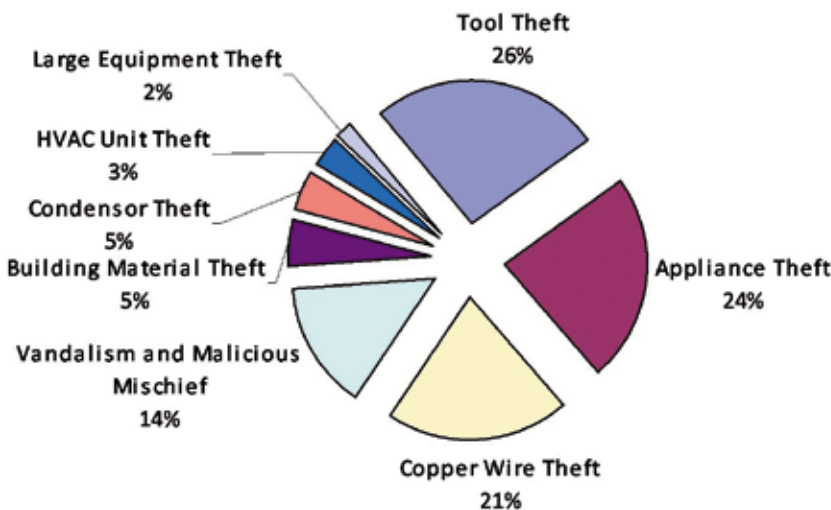
According to a DEWALT study, thieves strike 95 percent of contractors at least once annually. So, if there was any question as to whether you are at risk, just answer the question, "Are you a contractor?"

Crooks get creative

With less permits getting issued as compared to years past, can we let our guard down? No. In Tennessee, more HVAC units and mobile equipment have been stolen in the first seven months of the year than during all of 2007. In fact, recent economic hardships, like the increasing cost of fuel, encourage criminals to get creative. This summer, a fellow contractor arrived at the jobsite to find the 1,000-gallon portable fuel

DIRTY, ROTTEN SCOUNDRELS

Reported Theft & Vandalism Claims in TN (2007)



▲ *Data excludes vehicle thefts covered by Commercial Auto Policies
—Source: BMIC Claims Department

tank empty. Thieves had siphoned the diesel, breaking the pump's nozzle in the process.

So, what's missing from your jobsite? Check out the pie chart to see what contractors reported to Builders Mutual as stolen or vandalized during 2007.

More Than the Cost of What's Lost

Prevention can be costly, but the losses you suffer are often far greater than simply the cost of the stolen goods. Yes, the mobile equipment, building materials, or tools all have price tags. So do their temporary replacements—the tool or equipment rentals which keep your project on schedule. Or, you may need to absorb an increased delivery cost to rush reordered materials to keep you

on schedule.

Worst of all, the typical criminal doesn't exactly tiptoe around the jobsite. Think of the damage a criminal does when yanking copper wire out of the wall. Maybe you don't need to imagine it; maybe, you're simply remembering the time it happened to you. With a resale value of \$3-\$4 per pound, thieves are in a hurry to get as much as possible as quickly as possible. The combination of increased costs, project delays, damage, and headaches from all the hassle get you thinking about prevention.

Deterrents

What layers of deterrent can you add to your jobsite to discourage criminal activity?

1. Be smart about your trailer. If you can't trailer it home each evening, back it up against the house so the back door isn't easily accessible. Consider the bad luck of the contractor from neighboring NC that had two trailers stolen from the jobsite within weeks of one another. Fed up, he began parking it at home each evening until a third trailer was stolen from his driveway. He finally gave in and leased a secured, gated spot!

2. Hold on tightly to your tools. Again, if you can't take them home with you, be particular about the locks you use on your trailer, and be sure to etch your tools with personal identifiers. An engraving tool is a minimal purchase—in the \$25 range. Some contractors use distinctive fluorescent sprays on large items like ladders to easily distinguish theirs.

3. Immobilize your mobile equipment. Common keying saves you time when one employee's lost key doesn't halt work. On the flip side, criminals' keys easily start your equipment. Some companies equip newer models with locking mechanisms for both the ignition and the gas tank. Block your mobile equipment in with your trailer. Record identifying numbers, or consider registering it through a private company.

4. Make friends with local law enforcement. Some localities will patrol your jobsite for you. Consider giving them and even nearby neighbors your contact info and the hours you've authorized workers to be there.

5. Install surveillance. It's costly and it may not prevent trespassers, but it certainly helps uncover their identities.

6. Beware of inside jobs. Not all criminals are strangers, unfortunately.

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NEW PRODUCT REVIEW

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Here are few new technologies that are available today:

Green "Wheatboard" Cabinets



Koch Cabinets operates out of Seneca, Kansas and offers a variety of "Green Cabinets," including the elusive "Wheat Board Cabinets."

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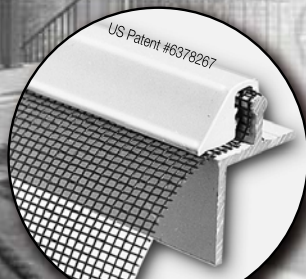
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Year End Tax Planning During **TOUGH TIMES**



Bob Bellenfant

of the stock markets, banking industry, housing and the war in Iraq have created a troubling environment for everyone. With all of the problems, the responsibility of filing and paying taxes continues to persist. Many of the strategies of reducing taxes apply during good and bad economic times.

Maximizing pension contributions, taking advantage of low rates of capital gains, and expensing equipment all continue to apply. Reducing expenses by sticking to a budget and eliminating nonessential

Tough times. can be created by a variety of events. Health issues, family crisis and job loss are just a few. The current situations

purchases would allow you to accumulate funds for your pension contributions and investments while stocks are priced lower.

Building a nest egg during good and bad years will create security against unforeseen events. Now is a good time to evaluate your financial goals and set a plan in place for achieving each of them. A pension plan is essential for every business owner.

Long term capital gains continue to be taxed at 15 percent. If you have realized gains earlier in 2008, you will want to evaluate selling securities that are at a loss to offset those earlier gains. Discuss this strategy with your stockbroker to see if it fits your situation.

If you need any additional equipment, now is the time to take advantage of the expensing election allowed under Section 179 of the Internal Revenue Code. You can also purchase and deduct certain trucks

under this provision.

Income shifting at your year-end is an excellent strategy. Accelerating or deferring sales will help recognize income into the year that is of the best advantage to you.

Should you incur a net operating loss, evaluate how to utilize the carry back/carry forward provisions to your best advantage. Channeling that net operating loss to a high income year, with its corresponding high tax rate, will yield the best results. Also, you might decide to either increase or decrease that loss by using other ideas common to tax planning.

One other perspective that you should not ignore is communications with your banker. Try not to put your banker in a position to make an unplanned decision. Keep your communications open and honest. Supply them with interim financial information. Let your creditors know how you are managing your business within the current economic environment.

Do not withdraw pension funds early to pay current obligations. Not only do you pay tax on the distribution, but you are subject to a 10 percent penalty as well. Think about how hard you worked to accumulate those pension funds. They will be difficult to replace if you take them out and also incur 30 - 45 percent taxes and penalties that you will never recover.

Tough times are a much better teacher than good times. I read once that if you operate your business as if it is on the verge of bankruptcy, you have a better chance at success. My thoughts are that if we eliminate unnecessary expenses and concentrate our efforts on our core strengths, our businesses will thrive throughout both good and bad times.

Bob Bellenfant is a certified public accountant with Bellenfant & Miles, P.C. CPA's in Brentwood, Tennessee. He has served homebuilders and other construction related businesses in Tennessee for over twenty years. You can reach him at (615) 370-8700, extension 12 or by e-mail at bob@bellenfantmiles.com.



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Meet Senator Jim F. Kyke

—Continued from page 15

Finally, I think Governor Bredesen and the Commissioner of Economic and Community Development, Matt Kisber, have been extraordinarily successful in their efforts to draw new companies to Tennessee, as evidenced by the recent announcement of Volkswagen's relocation to Chattanooga. The workers that build those cars will need houses, and your members will, in turn, build those houses.

5 What do you see as some of the key issues that will be facing the 106th General Assembly when it convenes in January?

This General Assembly that convenes in January will be different in a couple of ways. For one, it will have some new faces. We know already that some legislators have retired, and new legislators will be arriving to take their place. For the first time in 36 years, John Wilder won't be returning to the Senate. If you were to

look at the members of the State Senate five years ago, we have had almost turnover of over 50 percent. So clearly, there will be some changes in who makes up the General Assembly.

Second, this General Assembly will convene as our state and our nation is in the middle of this economic crisis. I can assure you that not one person that ran for office ran on a platform of having to reduce government services, but that is exactly what legislators will be called upon to do this year, absent a miraculous economic upturn. I have been through these budget shortfalls before, and it's a time when you find out who in the state legislature are workhorses and who are show horses.

At the end of the day, it is wise to remember that when Governor Bredesen came into office, our state was facing equally challenging budget conditions. I have no doubt that the Governor has the expertise and ability to lead Tennessee through this period, and I look forward to

working with him to find a solution.

It is also vitally important for groups like the Home Builders Association of Tennessee to provide input to us during the legislative session so we can be aware of how pending legislation affects your industry. We need that sort of first hand perspective and I know that HBAT and HBAT members will continue to provide it. ♦



The Home Builders Association of Tennessee would like to sincerely thank Senator Jim Kyle and his staff for their assistance in producing this article.



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Local, State, and National HAPPENINGS

HBA of the Upper Cumberland

HBAUC recently participated in the Cookeville/Putnam Co. Chamber's Small Business Expo. The theme for the expo was "Our Community Under Construction." In addition to having a display to promote the association, members served lunch on the second day!



Photo left to right: Dave Boender, Cove Builders Development; Andy Hammock, Andy Hammock Construction, and the barbecue expert, Milt Collins.



HBAMT President Michael Arnold presents State Representative Susan Lynn (R – District 57) with PAC check.



Davis Lamb (right) presents State Representative Glen Casada (R – District 63) with a PAC check.



Attorney John Williams (center right) with law firm Tune, Entrekin & White P.C. spoke to members of the HBAMT outside of the Supreme Court building in downtown Nashville following a briefing for the association's appeal of a lawsuit against Williamson County. The lawsuit involves a privilege tax on new construction where builders must pay a given amount per square foot at the time of permit. The county assessors were then attempting to reassess fees on homes that, upon completion, were shown to have a larger square footage than on the original plans. The HBAMT is currently awaiting a ruling.

HBA of Middle Tennessee



HBAMT President Michael Arnold presents State Representative Debra Maggart (R – District 45) with PAC check.



Bill Kottas (left) and Steve Cates with NAHB Chairman, Sandy Dunn, at an HBAMT BuildPAC fundraiser hosted by Cates.

HBA of Greater Knoxville



Congressman Zach Wamp addressed the HBAGK membership at the Annual Parade of Homes Awards Dinner. Congressman Wamp was quoted as saying, "If you can't build it, make it, or grow it, you can't sell it or service it." Congressman Wamp stressed his commitment and support for the homebuilding industry and to small businesses.



HBAGK & HBAT Past President Earl Sharp is shown presenting a BuildPAC check to Congressman Wamp.



Ed Zarb, incoming 2009 HBAT President, is shown receiving awards for his Parade home; he received a silver, gold, and a perfect score for his Parade entries.

(Note: Julie Dupree, Dupree-Graf Construction, and Parade of Homes Committee Chair, is shown in the background announcing the winners.)



Brian Shugart, President of the HBAGK, is shown addressing the attendees of the Parade of Homes Award Dinner.



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