Monthly Member Magazine Vol. 24 – Issue 8

Building Blocks

August 2015

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TRADE WARS

The fight for labor grows ugly, pitting builder against builder – Part 1 of 2

By Les Shaver, BUILDER Magazine (reprinted)

Editor's Note: Although the examples in this article are from other geographic regions in the country, the problem is universal and, if it hasn't affected our builders yet, it most certainly will. Being forewarned is being forearmed.

If you don't believe the competition for labor is fierce, you should talk to Jase Prewett, VP of construction at Brookfield Residential's Southern California office.

In April, Prewett says a rival drywall company came into one of its jobsites as his contractors hung drywall. The firm's intent? Stealing Brookfield's drywall subcontractor's workers. One of the site managers asked them to leave, but an hour later, the rival staked out another house in the community, trying to entice different drywallers to come aboard.

In the past, contractors would engage in fierce competition for labor in California. But Prewett, whose company subcontracts all of its labor, has never seen anything quite like this – trade contractors righting over crews by offering them signing bonuses and raises to come aboard exclusively.

"In the west, we've kind of had this unspoken rule – a kind of gentleman's agreement – that none of that recruiting happens on site," Prewettt says. "But that's out the window now."

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Above list has been updated via the most current NAHB Spike Club Roster Report
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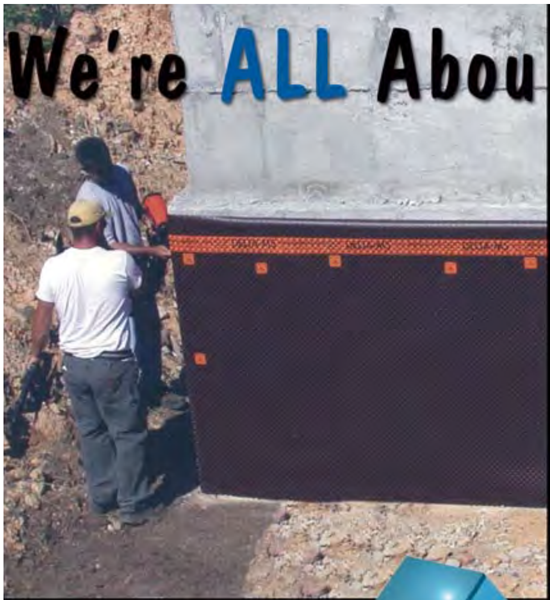

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How did it come to this, one contractor entering a construction site to steal another contractor's labor? There's not a simple answer. A litany of factors – the real estate bust, the resulting migration of construction workers back to their home countries, the oil boom, construction picking up again – led to one place: the scarcity of labor potentially strangling the housing recovery before it even really starts.

A Growing Problem

The numbers back up what Prewett and other builders around the country see firsthand. Construction firms added 280,000 jobs over 12 moths, with 45,000 just in April. The sector's unemployment rate fell to a nine-year April low of 7.5%, according to an analysis by the Associated General Contractors of America (AGC).

But that's for the construction industry as a whole. Drill down to the single-family level and the stats really hit home.

Consider Metrostudy's Builder Labor Supply report, which was released earlier this year and sponsored by Acme Brick, Johns Manville, Lubrizol, and MiTek-Berkshire Hathaway Cos. In that survey, 70% of builders and general contractors across the country cited "labor" as their No. 1 challenge, blowing away "material pricing," which was second with 20%. More than two-thirds (67%) of respondents said they were experiencing labor shortages. And, in every region, at least 64% of respondents reported experiencing labor issues.

In a January survey by the NAHB, builders listed labor as their greatest concern for 2015. In 2014, it was their second-biggest concern.

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From the Executive Director

Members and Friends:

I hope all of you are enjoying the summer (and having a profitable one as well). The cover story, although cites examples from other parts of the country, is a very valid and scary trend happening in our industry. I personally saw it starting about a decade ago.

It's important for us, as construction professionals, to work towards sustaining our industry by bringing on young people, teaching them through apprenticeships and on-the-job training, in an effort to help develop skilled tradesman for the future.

I would also encourage you to work with the Medina County Career Center as they have a construction program there. You may be able to cultivate a pool of young talent from that resource.

It's important that we address this issue locally both as an association and as industry professionals. Let me know how I can be of assistance to you in this.

Respectfully:

Dave LeHotan
Volunteer Executive Director

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Legislative NEWS

OHBA SUMMER MEETING RECAP

OHBA held its summer meeting at Rockwell Springs Trout Club in June. Several key items were discussed at the meeting including contractor registration, upcoming PUCO call before you dig rules, draft legislation on cognovits, recent RCAC action, and changes in the closing process. All in attendance listened to valuable information and provided insight into the highlighted topics.

Prior to the meeting, there was a successful fish fry and lobster boil to kick off the event.

BIENNAL BUDGET PROCESS COMPLETE

With the House and Senate approval of the conference committee report, HB 64, the two year state budget, was sent to the Governor for his signature and exercise of his veto power. After vetoing several items, Governor Kasich signed HB 64 June 30th, effective immediately. The initial tax reforms proposed in the executive version of the budget did not survive. Thus, expansion of the sales tax, CAT tax increases, and the proposed severance tax will all be topics of discussion for another day. As far as taxes go, the final bill, however, did cut state income-tax rates by 6.3 percent, increased the tobacco tax, revised the tax cut for small businesses to be 75% on the first $250,000 in revenue for tax year 2015, 100% in 2016 and thereafter, and a flat 3% tax on earnings above that total.

There were numerous other items included in the final, almost 3000 page version of HB 64. OHBA will continue to monitor the practical impact of some of such items dealing with OEPA and Opting out of sewer tap ins, among others.

NEW PUCO CALL BEFORE YOU DIG RULES TO BE ADOPTED

As a result of passage of legislation at the end of the last G.A., the PUCO is in the process of adopting rules to implement changes to the Call Before You Dig law which become effective January 2016. Included in these changes are its new registration requirement and fee for anyone who participates in the Call Before You Dig system, as well as, rules for the Underground Technical Committee (UTC).

During the next several weeks, PUCO staff will review and consider all comments that were submitted. A proposed final draft of rules will be submitted to the PUCO Commissioners for a vote. If the PUCO Commissioners vote is affirmative, the rules will be published. The rules will be sent to JCARR for review and acceptance (this is approximately a 60 day process). Final JCARR approved rules should be completed by late this year. ■

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Renewed Builders

Carrington Homes, Inc. – Hinckley
Drees Homes – Brecksville
Pulte Homes of Ohio – Medina
Wayne Homes - New NV Co. – Norton

Renewed Associates

ID Creative Group Ltd. – Valley City
MacGregor & Broemsen CPAs – Akron
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(Cover Story – Cont'd from Page 3)

"The one persistent problem that won't get better is people," said TRI Pointe CEO Doug Bauer in an interview last year. "Sub trade labor will continue to be a problem. You'll continue to have higher labor costs. A lot of the guys in the industry that were experienced have left."

You would think deep-pocketed public builders like Bauer's Irvine, Calif.-based TRI Pointe, with 3,100 closings last year, could lock in labor at will. But all of the builders who constructed 250 homes or more per year reported labor issues.

Fayetteville, N.C.-based Caviness & Cates Communities closed 444 homes in 2014, and it felt the squeeze for contractors. "The trades are tough right now because there's a shortage of them and

(Article continued on next page)

(Cover Story – Cont'd from Page 7)

a lot of them went out of business in the downturn," says company co-owner Chris Cates. "The good trades are in such demand that they can just name their number."

Darren Sutton, president of Bonterra Builders in Matthews, N.C., which completed 303 homes last year, thinks many bigger companies get hung up in bureaucratic barriers.

"One thing about our organization is that I'm pretty quick to make a decision, and I don't have to run it up a ladder," Sutton says. "I can react pretty quickly to what the market is doing and make changes and adjust."

More than 80% of builders and contractors that annually produce 101 to 250 homes reported labor issues, while 70% of builders and contractors producing 51 to 100 homes a year reported labor issues.

The best spot might be for builders in the 11-50 homes-per-year category. Only 40% of those builders and contractors reported labor issues. But labor problems rose to above 50% for the tiniest of builders, who build one to 10 homes per year.

Yet Fred Delibero, CEO of Kansas City-based Summit Custom Homes – which closed 184 homes last year and is the largest builder in its market – see advantages in having size.

"Being the largest home builder in the market with quick invoice payment terms gives us a definitely advantage over the smaller builders, many of whom are paying a premium right now to keep their building schedules on track, while still more are experiencing dramatically lengthened building cycles because of the labor shortages," he says. "Our trade partners do business with us, and put us first in line because we provided uninterrupted workflow and consistent payment terms."

Outside Competition

While the slump in oil prices might alarm some Texas home builders, College Station-based Stylecraft Builders, which completed 430 homes last year, isn't one of them.

"The silver lining with the oil prices is the fact that we will get some of the labor back," says Stylecraft CEO Dou French. "I think as building continued to rebound and as our starts continued to improve and get stronger it was difficult for our guys (subcontractors) to scale up. Where they used to be able to go into Houston and grab additional crews to increase capacity, that was no longer the case."

Like French, a lot of builders and contractors, especially those in oi-heavy markets, saw labor flee to other industries. In fact, 26% of respondents to the Metrostudy survey who lost labor to other industries said they lost it to the oil/energy sector. Another 23% said manufacturers pulled their labor away.

"The labor shortage was at its worst in the places that are growing faster or the places that have some other competing industry, like energy," says NAHB chief economist David Crowe.

Despite that, only 39% of builders surveyed said they are losing labor to other industries; in contrast, 59% of all surveyed builders are losing labor to the competition.

The competition for labor also hits builders of all sizes. Approximately six out of 10 builders who produced 11 homes or more per year said they were losing labor to their competitors. The labor they're most often losing seems to be framers – almost eight in 10 are having a difficult time finding framers.

"We are having to pay 10 to 15 cents more per framing footage to keep our framers," Cates says.

Finish carpentry (more than 40% of respondents), drywall (almost 40%), plumbing (more than 30%), electrical (30%), roofing (more than 25%), and concrete (more than 20%) also ranked as hard-to-fill trades.

"We are experiencer shortages in many categories, but they're most pronounced in our framing and drywall installation even after moderate permit growth in our market," Delibero says. "We are especially concerned about the very real shortage of skilled labor in the mechanical trades as the housing market heats up further and we see bigger gains in permit count because right now the availability of skilled labor in that segment is stretched to the breaking point."

French also has had issues finding framers, in addition to other problem areas as well.

"Roofers and sheet rockers have been a problem," he says. "Those are really the biggies. The mechanical, electrical and plumbing contractors have been easier to find. We never had issues finding those guys."

Supply and Demand

Brookfield's Prewett, whose company closed 785 homes last year, sees a simple reason for this intensified competition. "Part of the problem is simply the number of contractors available to do work," he says.

Prewett should know. When the previous bubble started to burse, he kept track

(Article continued on page 10)

Housing = Jobs

Resonates with Lawmakers

The health of housing is key to the overall state of the U.S. economy, and housing stands poised to serve as an engine of job growth with the right policies in place, NAHB told Congress in 2014 testimony.

Testifying before the Senate Banking Committee's Subcommittee on Economic Policy during a hearing examining the drivers of job creation, NAHB economist Robert Dietz said that home building and remodeling have generated 274,000 jobs over the past 2 ½ years.

"This expansion has direct economic benefits," said Dietz. "Housing provides the momentum behind an economic recovery because home building and associated businesses employ such a wide range of workers."

Employment from new home construction and remodeling has a wide ripple effect. About half the jobs created by building new homes are in construction. They include framers,

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(Cover Story – Cont'd from Page 8)

of the contractors going out of business. Eventually, that list hit 50. Nationally, construction employment dropped by 2.3 million from the peak in April 2006 (7.7 million) to the trough in January 2011 (5.4 million), according to the AGC.

"We we had the downturn, the Great Recession, a lot of Hispanic labor went back to Mexico," Prewett says. "What I'm hearing from guys in the field is that a lot of them just didn't come back. The economic improved in Mexico. That's one factor. The other is they went into other industries."

But construction is coming back, albeit slowly. Housing starts climbed from 554,000 in 2009 to just over 1 million in 2014, according to the Census Bureau. "AS builders respond to new demand, they're running up against supply issues," Crowe says.

For instance, as the community count rose in Southern California – Prewett says it's up 23% year over year – builders and their subs are being squeezed. "Now that the amount of work is picking up as much as it is in Southern California, there are only so many trades out there than can handle it," he notes.

Long-term Problem

Labor shortages are having serious effects on builders. More than 70% of respondents in the Metrostudy survey said labor issues increased both their expenses and delivery times.

Either of these results ultimately could hinder the amount of homes coming online. When those homes do come online, persistent labor issues would make them more expensive. In this nascent housing recovery, where the entry-level home has seemingly been left behind, that's bad news.

The good news, however, is while builders are feeling the pain of labor costs, many contend they haven't had to shelves projects – yet.

"The labor shortage is a big factor, but it's not preventing us from building homes," Prewett says. "It's causing costs to increase because the trade contractors are having to pay more to keep the crews working for their company, and builders are having to pay more to keep the quality trade contractors on their neighborhoods."

Cates agrees: "It has not caused me to not do any projects, but it continues to be an issue."

But that could change. Bill Handler, president of Florida-based GHO Homes, which closed 121 homes last year, feels pretty secure because of his firm's long history and partnerships with longtime vendors and trades. Still, labor weighs on his future plans.

"We'll continue to expand – but we'll do it with discipline," Handler says.

Part 2 of this article will appear in the next issue of Building Blocks. ■

NAHB

Builders Remain Optimistic about 55+ Market

Builder confidence in the single-family 55+ housing market remains in positive territory for the second quarter of 2015 with a reading of 57, according to the NAHB 55+ Housing Market Index (HMI) released today. Despite the one-point dip from the previous quarter, this is the fifth consecutive quarter with a reading above 50.

"Although builder confidence in the 55+ housing sector is down slightly from its peak, builders are still optimistic about the market going forward," said Timothy McCarthy, chairman of NAHB's 55+ Housing Industry Council and managing partner of Traditions of America in Radnor, Pa. "According to our survey, one area in particular that's improved recently is the condo market, and we expect this momentum to continue."

There are separate 55+ HMIs for two segments of the market: single-family homes and multifamily condominiums. Each measures builder sentiment based on a survey that asks if current sales, prospective buyer traffic and anticipated six-month sales for that market are good, fair or poor (high, average or low for traffic). An index number above 50 indicates that more builders view conditions as good than poor.

Two of the three components of the 55+ single-family HMI posted slight decreases from the previous quarter: Present sales decreased two points to 62 and expected sales for the next six months dipped one point to 66, while traffic of prospective buyers increased three points to 43.

The 55+ multifamily condo HMI rose five points to 43, with all three components showing increases as well: Present sales rose three points to 44, expected sales for the next six months jumped 10 points to 49 and traffic of prospective buyers increased eight points to 41.

All four indices tracking production and demand of 55+ multifamily rentals declined in the second quarter. Present production decreased 12 points to 46, expected future production fell three points to 49, current demand for existing units declined nine points to 59 and future demand dipped one point to 63.

"Overall, builders in the 55+ housing sector remain positive about the market," said NAHB Chief Economist David Crowe. "However, many builders are being cautious as lot availability and skilled labor shortages remain a challenge in some parts of the country." ■

EXECUTIVE VICE PRESIDENT'S COLUMN

By Vincent J. Squillace, CAE
Executive Vice President

Now that the Ohio legislature has adjourned until September, we turn our focus to some important activities at various state agencies. The PUCO is in the final stages of rules to implement the mandatory registration of all persons who are involved with land excavation. The new law is intended to assure all parties involved in construction projects which may involve digging more than 12 inches must be registered with the PUCO. Penalties range as high as $2,500.

The RCAC continues to review, implement and interpret various sections of the residential code. While no new changes are expected there is always a concern to push for new and increased regulations from various sources.

The EPA continues to work towards rule modifications regarding stream and wetland protections. The intent is to make the process more predictable and cost effective. So far, the effort looks promising. However, we are concerned the new waters of the US (WOTUS) ruling may reverse much of the positive work which has been done in Ohio. Thanks to Attorney General Mike DeWine who has sent a letter in opposition to the increased standards.

We will also keep an eye on some federal issues; namely, the silica dust rule, housing discrimination rules of HUD and a bill in Congress which may impact energy codes for new home construction.

(Housing = Jobs – Article continued from page 9)

electricians, plumbers and carpenters. Other jobs are spread over other sectors of the economy, including manufacturing, retail, wholesale and business services.

NAHB analysis of the broad impact of new construction shows that building 1,000 average single-family homes generates:

- 2,970 full-time jobs
- $162 million in wages
- $118 million in business income
- $111 million in taxes and revenue for state, local and federal governments

Similarly, construction of 1,000 rental apartments, including units developed under the Low Income Housing Tax Credit, generates 1,130 jobs while $100 million in remodeling expenditures creates 890 jobs.

Currently, housing comprises about 15.5% of GDP but Dietz said the industry still has room to grow.

"Typically, housing represents 17% to 18% of the GDP," he said. "With a growing population and an aging housing stock, NAHB forecasts that single-family construction will increase 22% in 2014 to 760,000 units and multifamily production will rise 6% to 326,000 units."

Noting that 2014 should be the first year since 2007 in which total housing starts exceed 1 million homes, Dietz said this expansion will produce jobs. "In April alone, home builders and remodelers added 13,100 jobs," he said.

NAHB estimates that total housing construction over the next few years should return to just under 1.7 million combined single-family and multifamily starts on an annual basis.

Contact info:
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Workers' Compensation Prospective Premium Payment Transition

As of July 1, 2015 the Bureau of Workers' Compensation (BWC) has transitioned to the new premium payment model where employers' will pay their premium in advance (prospective billing) as opposed to in arrears as has been the case traditionally. There is still quite a bit of confusion as to how the process works.

By now employers have received their *Notice of Estimated Annual Premium* and installment schedule from the BWC for the July 1, 2015 through June 30, 2016 rate year. Most employers will be invoiced and pay their premiums bi-monthly except those who have elected another payment option. BWC will invoice employers 30 days prior to the due date of each installment. The first premium installment for July/August was credited by BWC; therefore, employers have no premium due for July and August of the 2015 rate year. BWC is scheduled to send invoices for the second installment on August 1. This premium installment is due by August 31, 2015 and is for the months of September and October.

As part of the prospective billing transition BWC has also provided a premium transition credit for the second half of the 2014/2015 rate year, from January 1, 2015 through June 30, 2015. Employers must still complete their payroll reports for this period but no premium is due.

BWC will lapse any employer who does not pay their installment on time. Be aware that lapsed coverage can result in uncovered claims and jeopardize an

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employer's eligibility for group rating and other BWC programs.

If you have a workers' compensation policy number but report no payroll you must pay BWC

$120 annually due by August 31, 2015 in order to maintain your workers' compensation

certificate.

If you have further questions, please contact CareWorksComp's Program Manager, Bob Nicoll,

toll-free at 1-800-837-3200, ext. 58595 or via email at robert.nicoll@careworkscomp.com. ■

2015 Dates To Remember

October 3-18, 2015

Fall Parade of Homes – *Attention All Builders - if you are building homes in Medina County, you can't afford to miss being in this event. More information to come, but deadline for participation is August 15. It will be worth your time and investment to participate.*

Members …

Remember, whenever possible, always try to do business with a fellow member and support your Medina County HBA & local community!

Thank you Ken Cleveland For Continuing to Make a Difference on Behalf of the Medina County Home Builders Association!

Ken Cleveland recently made another very generous donation to the Medina County Home Builders Association.

Ken is a charter member of our association and one of the founding fathers which helped create the Medina County HBA back in 1973 - 42 years ago. Ken Cleveland is our top spike member and has shown unending support for our association and all it stands for. Without his support over the years, the organization may not have survived - for which we are grateful!

We congratulate Ken Cleveland for his continued support of our Association and sincerely thank him for his generous donations. This helps to continue the momentum of growth of our organization and helps us make a difference in our community.

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2015/2016 Workers' Compensation Prospective Premium Payment Transition Calendar

March 2, 2015	Payroll due for July 1, 2014 - December 31, 2014 (28th falls on Saturday).
May 1, 2015	Estimated premium notice for policy year 2015 mailed to employers from the BWC. (Note: The invoice will be for the entire year using 7-1-13 to 6-30-14 reported payroll). The annual certificate of coverage will be mailed.
June 1, 2015	1st installment will be paid by the Ohio BWC for the employer (covering July & August 2015 payroll). Invoice mailed to employer for the 1st installment with information that it will be paid by the Ohio BWC.
June 30, 2015	Payroll reports mailed by the Ohio BWC.
July 15, 2015	Ability to select payment plan option (annual, semi-annual, quarterly, bi-monthly or monthly). If employer does not choose, the BWC will put on a bi-monthly plan. BWC recommends staying with bi-monthly plan.
August 1, 2015	Invoice mailed to employer for the 2nd installment.
August 31, 2015	2nd installment due to the Ohio BWC (covering September & October 2015 payroll). Also, payroll report due for the period January 1, 2015 - June 30, 2015 - no money due for this payroll report.
October 28, 2015	3rd installment due to the Ohio BWC (November & December 2015) if on bi-monthly payment plan.
November 16, 2015	CareWorksComp Group Rating enrollment deadline for the 2016/2017 plan year.
December 31, 2015	4th installment due to the Ohio BWC (January 2016 & February 2016) if on bi-monthly payment plan.
January 22, 2016	CareWorksComp Group Retrospective Rating enrollment deadline for the 2016/2017 plan year.
February 28, 2016	5th installment due to the Ohio BWC (March & April 2016) if on bi-monthly payment plan.
April 30, 2016	6th installment due to the Ohio BWC (May & June 2016) if on bi-monthly payment plan.
May 1, 2016	Estimated premium notice for policy year 2016 mailed to employers from BWC.
July 2016	BWC will send true-up notice.
June 30, 2016	1st installment due to the Ohio BWC for the 2016/2017 policy year. (Employer may have other payment options available).
August 15, 2016	The true-up will calculate any variance from estimated payroll to actual payroll for the period July 1, 2015 - June 30, 2016. The true-up must be done online or over the phone. If money is owed, it needs to be paid by this date.*

BWC will mail invoices 30 days prior to the date of each installment.
BWC will lapse any employer who does not pay their installment on time.
**BWC will not lapse employer if they do not fulfill true-up obligation, but will add 10% to premium due & bill employer. Also employer will be ineligible for programs going forward if they do not fulfill the true-up obligation.*

Important Notes

Coverage is through the Ohio Bureau of Workers' Compensation (BWC), as workers' compensation is state run in Ohio. Premiums need to be paid directly from the company to the Ohio BWC. Learn how the premiums are calculated by going to:www.bwc.ohio.gov/basics/guidedtour/empyes/coverage/calculated.asp

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