



A NEWSLETTER for
the Professional Builder
& Remodeler.

THE CONTRACTOR

Survey Finds Two-Thirds Of Homes Under-Insulated

Improving home energy efficiency is a niche market completely unaffected by the slowdown in new home construction; indeed, with rising energy costs and tighter budgets, homeowners are looking for ways to squeeze energy savings out of their existing homes. And who do they usually talk to? You, their local builder and remodeling professional.

According to a Harvard University School of Public Health study, 65 percent of American homes are under-insulated; in fact, if a home is as little as 10 years old, it's probably one of them. Adding insulation is a relatively easy step to take and, when coupled with proper air sealing and caulking, can save homeowners up to 20 percent on utility bills, according to EPA Energy Star.

The North American

Insulation Manufacturers Association www.naima.org advises most homeowners to add between an R-19 and R-30 insulation to their attics to maximize savings and comfort. But this is only a minimum; a highly energy-efficient home would be in the range of R-20 to R-30 in the walls and R-50 and R-70 in the ceilings.

The office of Energy Efficiency and Renewable Energy with the U.S. Department of Energy provides a wealth of information on its website www1.eere.energy.gov/buildings. The website includes studies and strategies for renovating existing buildings to improve energy efficiency, as well as links to software tools to help calculate energy savings.

Talk to us when you have questions.



"... with rising energy costs and tighter budgets, homeowners are looking for ways to squeeze energy savings out of their homes. Who do they talk to? You ..."

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Preparing For The Next Housing Boom

Success in the next housing boom will require partnerships between suppliers and builders

It may seem an inopportune time to talk about the next housing boom, especially when all the news about today's housing industry is so dire. But it's times like these, in a down market, when the foundation is laid to

build and prosper when the market turns up again. And it will turn up again.

Indeed, the Harvard Joint Center for Housing Studies projects a need for 20,350,000 new homes between 2005 and 2014 – that's new homes! And it's roughly 2 million more than during the same period of time that we've just exited. In fact, the Brookings Institute says 58.9 million new housing units will be needed by 2030 to accommodate population growth. The next

housing boom will be driven by retiring Baby Boomers, first-time Millennial home buyers, and immigrants.

What's the difference between the next housing boom and the one we just left? Affordability will be the key ingredient of new home sales; that means smaller homes, perhaps half the square footage of homes built in the 1990s. And it also means an emphasis on energy efficiency.

How will suppliers and

builders together prosper in this next housing boom? The answer is twofold: greater coordination and communication between the supplier and the builder, with emphasis from the supplier on service; and for the builder, an emphasis on jobsite efficiency.

There is evidence that jobsite efficiency suffered during the last housing boom.

A 2004 Stanford University study, entitled "Systemic Innovation in

Project-Based Industries," found the average cycle time increased throughout the last housing boom, peaking at about 210 days in 2001. The National Association of Home Builders (NAHB) estimates average cycle time cost at \$291 per day, though most builders say their actual cost is closer to \$150 per day.

Most would agree that a typical 2,000 square foot home should take no more than 120 days to complete. If the average cycle time has actually increased to 210 days, that's 90 additional days at a cost of \$150 per day (the builder's estimate) for a total lost profit of \$13,500!

Many builders believe the best method to pad or improve their profits is to negotiate price discounts with building material suppliers; most believe suppliers have great flexibility in their pricing, but the reality is quite the opposite.

Margins for building material suppliers have been squeezed by the price increase of basic commodities (oil and steel are two such examples). Combine this with increased transportation costs, and suppliers are finding their margins shrinking.

But even if they do have some flexibility and can provide price dis-

counts, analysis shows that these discounts do not compare anywhere close to the savings realized by improving jobsite efficiency.

As an example, the median price of a new home built in 2005 was \$236,100. Approximately 16% (\$38,000) of the value of a new home is comprised of lumber and basic building materials: framing, doors, windows, interior and exterior trim, and builder's hardware.

If a builder negotiated a price discount of 3.15% of \$38,000, they'd gain about \$1,200. But compare that to the actual cost savings of reducing cycle time by just 10% (210 days x .10 = 21) multiplied by the average cost savings per day (21 x 150 = \$3,150), and it's evident that a builder can increase profits much more by improving jobsite efficiency first and foremost.

The Suppliers Responsibility

So, if the builder is going to focus on improving jobsite efficiency to boost profits, what is the supplier's responsibility to the builder to make this happen?

The answer can be traced all the way back to the post-WWII housing boom of the late 1940s and early 1950s, when a

builder, William Levitt, was credited for reinventing the American home. Basically, Levitt brought to the home building industry a systematic production flow, where building a house was divided into 26 separate operations. He admitted his production techniques were taken from concepts of the automobile industry, where cars rolled off an assembly line.

Well, the houses weren't necessarily rolling off an assembly line, but there was a process in place where men and material arrived at set times so that the production process was fluid.

As well, he pioneered many of the construction techniques that are in use today: prefabricated components, subcontractor coordination, supplier installation, and supply chain management.

These are the same techniques being used by the largest builders in the country. But these are not just techniques for large scale production builders, they can be utilized by smaller builders just as well for the same benefit.

Coordination and communication between the supplier and the builder is a key ingredient for improving jobsite efficiency. A 2002 NAHB report, entitled "Ten Steps to



Improve Jobsite Productivity," found 14% of a typical workday was spent waiting on resource. This non-productive time can often be traced to a failure to plan and schedule.

But by partnering with the supplier, maintaining communication, coordinating deliveries, refining production efficiencies through supply chain management, utilizing supplier installation services and prefabricated components, a builder can improve jobsite efficiency by relying on the service of building material suppliers, much as William Levitt did 60 years ago.

Arrow Building Supply will provide you with construction solutions, quality materials, and superior service. Talk with your Arrow Building Center sales representative and we'll begin laying the foundation for the next building boom.

What A Year It's Been!

Well, it doesn't seem possible, but another year is coming to an end. And what a year it's been. As this column is being written, world stock markets have tumbled nearly 30 percent; the U.S. government has passed a \$700 billion dollar (call it what you want: a bailout or rescue package); and for the first time ever, central banks from around the world coordinated a



Arrow Building Center
President David Majeski

simultaneous rate cut (with the U.S. Federal Reserve cutting 50 basis points).

Indeed, 2008 will probably go down in the collective conscious of Americans as a year that is recalled with the preface, "I remember when ..." Years from now when pundits are saying we are about to enter

another Great Depression, we can tell our children and grandchildren, "I remember when ..."

We're not entering another Great Depression now either. Sure, troubles in the national housing market have filtered into the financial sector. Probably some more banks will fail, and there probably will be some more big mergers. But banks, the U.S. government, and the global economy is not going out of business.

That's why we need to keep things in perspective. Businesses are still making money, commerce is still moving, and though credit has tightened, banks are still lending. They're just being

more careful. And most experts believe the housing market has bottomed and will gradually improve.

You might want to know, too, that your Arrow Building Center is doing just fine; in fact, we're finishing up the year on a strong note. This would not have been possible without our dedicated professional customers and the many "new" customers that have turned to us for products and service.

As the holidays approach, we want to take this opportunity to thank our professional customers. We wish you and your family a very joyous, safe and happy holiday season.